As filed with the Securities and Exchange Commission on May 22, 2007

Registration Number 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CODA OCTOPUS GROUP, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**3812**	**34-200-8348**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

164 West, 25th Street, 6th Floor,
New York 10001
(Address and telephone number of principal executive offices)

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President and Chief Executive Officer
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ☒

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.001	15,000,000	$ 1.52	$ 22,800,000	$ 2,439.60
Common Stock, par value $0.001 (2)	17,400,000	$ 1.52	$ 26,448,000	$ 2,829.94
Total	32,400,000		$ 49,248,000	$ 5,269.54

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended.

(2) Represents shares issuable upon exercise of warrants.

The registrant hereby amends this registration statement on such date or date(s) as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the commission acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

Subject to Completion, Dated May 22, 2007

CODA OCTOPUS GROUP, INC.

32,400,000 **Shares of Common Stock**

This prospectus relates to the resale by the selling stockholders of up to 32,400,000 shares of our common stock. The total number of shares sold herewith consists of the following shares held by or to be issued to the selling stockholders: (i) 15,000,000 shares held by certain of our stockholders (ii) 7,500,000 shares issuable upon the exercise of A warrants, (iii) 7,500,000 issuable upon the exercise of B warrants and (iv) 2,400,000 shares issuable upon exercise of placement agent warrants. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. We will, however, receive proceeds from the cash exercise, if any, of warrants to purchase an aggregate of 17,400,000 shares of common stock. All costs associated with this registration will be borne by us.

The selling stockholders may sell their shares in public or private transactions, at prevailing market prices or at privately negotiated prices. We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders.

Our common stock is currently traded in the pink sheets under the symbol CDOC. On May 15, 2007, the last reported sale price for our common stock in the pink sheets was $1.50 per share. We are currently in discussions with various broker-dealers to arrange for an application to be filed with the National Association of Securities Dealers (NASD) for the public trading of our common stock on the OTC Bulletin Board. There is no assurance that our common stock will be quoted on the OTC Bulletin Board or any stock exchange.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is _____, 2007

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	3
Forward Looking Statements	8
Use of Proceeds	8
Management's Discussion and Analysis or Plan of Operation	9
Business	15
Description of Property	25
Legal Proceedings	26
Directors and Executive Officers	27
Executive Compensation	30
Security Ownership of Certain Beneficial Owners and Management	37
Market for Common Equity and Related Stockholder Matters	38
Selling Stockholders	39
Recent Financing	42
Certain Relationships and Related Transactions	43
Description of Securities	44
Plan of Distribution	46
Legal Matters	47
Experts	47
Where You Can Find More Information	48
Disclosure of Commission Position on Indemnification for Securities Act Liabilities	48
Index to Consolidated Financial Statements	F-1

You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including, the section entitled "Risk Factors" before deciding to invest in our common stock. Coda Octopus Group, Inc. is referred to throughout this prospectus as "Coda Octopus," "we" or "us."

General

We are engaged in 3-D subsea technology and are the developer and patent holder of real-time 3-D sonar products which are expected 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, 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 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, 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.

- Early recognition of need for 3-D real-time sonar in defense/security applications.

- Expansion into new geographies like North America and the Western hemisphere.

- 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, and that 3-D sonar has disruptive technology qualities, in the early stages of adoption. 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.

Our principal executive office is located at 164 West 25th Street, 6th Floor, New York, New York 10001and our telephone number at that location is 212-924 3442.

This Offering

Shares offered by Selling Stockholders	Up to 32,400,000 shares, including 17,400,000 shares issuable upon exercise of warrants
Common Stock to be outstanding after the offering	65,209,750*
Use of Proceeds	We will not receive any proceeds from the sale of the common stock hereunder. See "Use of Proceeds" for a complete description.
Risk Factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider "Risk Factors" beginning on page 3

*Based on the current issued and outstanding number of shares of 47,809,750 as of May 11, 2007, and assuming issuance of all 17,400,000 shares upon exercise of the warrants issued to the investors and the placement agent, the number of shares offered herewith represents approximately 68% of the total issued and outstanding shares of common stock.

Recent Developments

Financing

During April and May 2007, we entered into and consummated securities purchase agreements with a group of accredited individual and institutional investors providing for the sale and issuance of 15,000,000 shares of our common stock and five-year warrants to purchase 7,500,000 shares of common stock at $1.30 per share and five-year warrants to purchase 7,500,000 shares of common stock at $1.70 per share. Gross proceeds from the offering amounted to $15,000,000. 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.

We agreed to file the registration statement of which this prospectus forms a part for the registration of the shares as well as the shares issuable upon exercise of the warrants within 45 days after the closing date of each of the offering and cause it to be declared effective within 90 days after the closing date (135 days assuming a full review by the Securities and Exchange Commission). Only investors who participated in this financing as well as the placement agent for the offering are having shares included in this prospectus. If the registration statement is not declared effective within the time period required, we must pay liquidated damages of 1.5% of the purchase price per month or part thereof up to a maximum of 24% in the aggregate of the purchase price paid. Such damages are payable in cash.

Acquisitions

On June 26, 2006, we acquired all of the issued and outstanding capital stock of Martech Systems (Weymouth) Limited, a UK company. This company specializes in engineering projects and sales to the UK Ministry of Defense, adding these capabilities to the Group. 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 is accrued as $382,000 as at October 31, 2006, due to exchange rate movements. Approximately $286,000 in common stock could become due on October 31, 2007, though this dependent upon the performance of Martech, and is in no way guaranteed. The result of operations of Martech have been included in the consolidated financial statements from the date of acquisition.

On April 6, 2007, we completed the acquisition of Miller & Hilton d/b/a Colmek Systems Engineering, a Utah corporation. The total purchase price was approximately $2.075 million, 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 that is 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.

RISK FACTORS

An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. The risk factors described below are not the only ones that may affect us. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See "Forward-Looking Statements."

Risks Related to Our Business

We have incurred significant losses to date and may continue to incur losses.

During the fiscal years ended October 31, 2006 and 2005, we incurred net losses (after giving effect to foreign currency translation adjustments) of $7,559,170 and $3,807,055, respectively. We may continue to incur losses for at least the next 12 months. Continuing losses will have an adverse impact on our cash flow and may impair our ability to raise additional capital required to continue and expand our operations.

If we are unable to obtain additional funding, we may have to reduce our business operations.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash at hand including the proceeds from a recent financing transaction will satisfy our operations and capital requirements for the next 12 months. However, if we are unable to realize satisfactory revenue in the near future, we will be required to seek additional financing to continue our operations beyond that period. We will also require additional financing to expand into other markets and further develop our products. Except for the warrants issued in our recent offerings, we have no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing on commercially reasonable terms or at all will be available when needed. The inability to obtain additional capital may reduce our ability to continue to conduct business operations. Any additional equity financing may involve substantial dilution to our then existing stockholders. Our future capital requirements will depend upon many factors, including:

- continued scientific progress in our research and development programs;
- competing technological and market developments;
- our ability to establish additional collaborative relationships; and
- the effect of commercialization activities and facility expansions if and as required.

We have limited financial resources and to date no positive cash flow from operations. There can be no assurance that we will be able to obtain financing on acceptable terms in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. Raising additional funding may be complicated by certain provisions in the securities purchase agreements entered into in connection with our most recent financing. Specifically, the agreements require us to issue shares to the current investors at no additional consideration if, at any time, we issue shares below a purchase of $1.00.

We are dependent on new products.

Our future revenue stream depends to a large degree on our ability to bring new products to market on a timely basis. We must continue to make significant investments in research and development in order to continue to develop new products, enhance existing products and achieve market acceptance of such products. We may incur problems in the future in innovating and introducing new products. Our development stage products may not be successfully completed or, if developed, may not achieve significant customer acceptance. If we were unable to successfully define, develop and introduce competitive new products, and enhance existing products, our future results of operations would be adversely affected. Development and manufacturing schedules for technology products are difficult to predict, and we might not achieve timely initial customer shipments of new products. The timely availability of these products in volume and their acceptance by customers are important to our future success. A delay in new product introductions could have a significant impact on our results of operations.

If the protection of our intellectual property rights is inadequate, our ability to compete successfully could be impaired.

We have a patent *"Method for Producing a 3-D Image."* We regard our intellectual property as critical to our business. We rely on a combination of patent, trademark and trade secret protection to protect our proprietary rights. Nevertheless, the steps we take to protect our proprietary rights may be inadequate. Detection and elimination of unauthorized use of our products is difficult. We may not have the means, financial or otherwise, to prosecute infringing uses of our intellectual property by third parties. Further, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which we will sell our products and offer our

services. If we are unable to protect or preserve the value of our patents, trademarks, copyrights, trade secrets or other proprietary rights for any reason, our business, operating results and financial condition could be harmed.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims that our products infringe upon the proprietary rights of others or that proprietary rights that we claim are invalid. Litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition regardless of the outcome of the litigation.

Other parties may assert infringement or unfair competition claims against us. We cannot predict whether third parties will assert claims of infringement against us, or whether any future claims will prevent us from operating our business as planned. If we are forced to defend against third-party infringement claims, whether they are with or without merit or are determined in our favor, we could face expensive and time-consuming litigation, which could distract technical and management personnel. If an infringement claim is determined against us, we may be required to pay monetary damages or ongoing royalties. Further, as a result of infringement claims, we may be required, or deem it advisable, to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms on a timely basis, it could significantly harm our business.

Our Products May Contain Errors or Defects, which Could Result in Damage to Our Reputation, Lost Revenues, Diverted Development Resources and Increased Service Costs, Warranty Claims and Litigation.

Our devices are complex and must meet stringent requirements. We warrant that our products will be free of defect for various periods of time, depending on the product. In addition, certain of our contracts include epidemic failure clauses. If invoked, these clauses may entitle the customer to return or obtain credits for products and inventory, or to cancel outstanding purchase orders even if the products themselves are not defective.

We must develop our products, particularly software associated with these products, quickly to keep pace with the rapidly changing market, and we have a history of frequently introducing new products. Products and services as sophisticated as ours could contain undetected errors or defects, especially when first introduced or when new models or versions are released. In general, our products may not be free from errors or defects after commercial shipments have begun, which could result in damage to our reputation, lost revenues, diverted development resources, increased customer service and support costs and warranty claims and litigation which could harm our business, results of operations and financial condition.

Increased Reliance on Sales to Government Agencies carries the risk of us Becoming Overly Dependent on one Source of Revenues.

We have recently introduced a new version of our Echoscope™, a sonar device that permits real time, three-dimensional viewing, imaging and data recording of underwater scenes and objects. Because of its ability to inspect harbor walls, ship hulls and bridge pilings under unfavorable conditions, it is uniquely positioned as an aid in port and coastal infrastructure security. Therefore, we believe that the product is of great interest to government agencies, particularly the U.S. Department of Homeland Security, and we are focusing our marketing efforts on those entities. If those marketing efforts are successful, we will become increasingly dependent on government contracts. If for any reason government spending on these types of security devices is subsequently reduced, this may have a significant negative impact our sales and results of operations.

Our Business is Subject to Disruptions and Uncertainties Caused by War or Terrorism.

Acts of war or acts of terrorism could have a material adverse impact on our business, operating results, and financial condition. The threat of terrorism and war and heightened security and military response to this threat, or any future acts of terrorism, may cause further disruption to our economy and create further uncertainties. To the extent that such disruptions or uncertainties result in delays or cancellations of orders, or the manufacture or shipment of our products, our business, operating results, and financial condition could be materially and adversely affected.

We Are Exposed to Fluctuations in Currency Exchange Rates.

A significant portion of our business including our manufacturing is conducted outside the U.S., and as such, we face exposure to movements in non-U.S. currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results and cash flows. Fluctuation in currency impacts our operating results.

Currently, we hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. The hedging activities undertaken by us are intended to offset the impact of currency fluctuations on certain non-functional currency assets and liabilities. Our attempts to hedge against these risks may not be successful resulting in an adverse impact on our net income.

We Face Risks in Investing in and Integrating New Acquisitions.

We have recently acquired a number of companies, including Miller & Hilton, d/b/a/ Colmek Systems Engineering, and intend to continue to acquire other companies. Acquisitions of companies entail numerous risks, including:

- potential inability to successfully integrate acquired operations and products or to realize cost savings or other anticipated benefits from integration;
- diversion of management's attention from on-going business concerns;
- loss of key employees of acquired operations;
- the difficulty of assimilating geographically dispersed operations and personnel of the acquired companies;
- the potential disruption of our ongoing business;
- unanticipated expenses related to such integration;
- the correct assessment of the relative percentages of in-process research and development expense that can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset;
- the impairment of relationships with employees and customers of either an acquired company or our own business;
- the potential unknown liabilities associated with acquired business;
- inability to recover strategic investments in development stage entities; and
- insufficient revenues to offset increased expenses associated with acquisitions.

As a result of such acquisitions, we have significant assets that include goodwill and other purchased intangibles. The testing of these intangibles under established accounting guidelines for impairment requires significant use of judgment and assumptions. Changes in business conditions could require adjustments to the valuation of these assets. In addition, losses incurred by a company in which we have an investment may have a direct impact on our financial statements or could result in our having to write-down the value of such investment. Any such problems in integration or adjustments to the value of the assets acquired could harm our growth strategy and have a material adverse effect on our business, financial condition and compliance with debt covenants.

Our management has limited experience in managing and operating a US public company. Any failure to comply or adequately comply with federal securities laws, rules or regulations could subject us to fines or regulatory actions, which may materially adversely affect our business, results of operations and financial condition.

Our current management has limited experience managing and operating a public company in the United States and relies in many instances on the professional experience and advice of third parties including its consultants, attorneys and accountants. Failure to comply or adequately comply with any laws, rules, or regulations applicable to our business may result in fines or regulatory actions, which may materially adversely affect our business, results of operation, or financial condition.

Government regulation and legal uncertainties may harm our business.

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. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by these regulations could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations.

The complex nature of our products increases the likelihood that our products will contain defects.

Our products are complex and may contain defects when first introduced into the market and as new versions are released. Virtually all

information technology products and particularly those with electro-mechanical components such as ours are subject to a certain rate of failure. Delivery of products with manufacturing defects or reliability or quality problems could significantly delay or hinder market acceptance of our products, which in turn could damage our reputation and adversely affect our ability to retain our existing customers and to attract new customers. Correcting these production problems may require us to expend significant amounts of capital and other resources. We cannot give you any guarantee that our products will be free from errors or defects after we start commercial production. If there are product errors or defects, this will result in additional development costs, loss of or delays in market acceptance of our products, diversion of technical and other resources from our other development efforts, increased product repair or replacement costs, or the loss of credibility with our current and prospective customers, which may have a negative impact upon our financial performance or status as a going concern.

If we cannot compete effectively, we will lose business.

The market for our products, services and solutions is positioned to become competitive. There are technological and marketing barriers to entry, but we cannot guarantee that the barriers we are capable of producing will be sufficient to defend the market share we wish to gain against future competitors. The principal competitive factors in this market include:

- Ongoing development of enhanced technical features and benefits;
- Reductions in the manufacturing cost of competitors' products;
- The ability to maintain and expand distribution channels;
- Brand name;
- The ability to deliver our products to our customers when requested;
- The timing of introductions of new products and services; and
- Financial resources.

These and other prospective competitors have substantially greater resources, more customers, longer operating histories, greater name recognition and more established relationships in the industry. As a result, these competitors may be able to develop and expand their networks and product offerings more quickly, devote greater resources to the marketing and sale of their products and adopt more aggressive pricing policies. In addition, these competitors have entered and will likely continue to enter into business relationships to provide additional products competitive to those we provide or plan to provide.

Loss of Jason Reid, our President and chief Executive Officer, could impair our ability to operate.

If we lose our key employee, Jason Reid, or are unable to attract or retain qualified and suitable personnel, our business could suffer. Our success is highly dependent on our ability to attract and retain qualified scientific, technical and management personnel. We are highly dependent on our management, in particular, Jason Reid, our President and Chief Executive Officer, who is critical to the development of our business as a whole. Mr. Reid has an employment agreement with us. However the loss of his services could have a material adverse effect on our growth plan. If we were to lose this individual, we may experience difficulties in competing effectively, developing our technology and implementing our business strategies. We have key man life insurance in place for a number of our employees, including Jason Reid.

We are authorized to issue "blank check" preferred stock, which, if issued without stockholders approval, may adversely affect the rights of holders of our common stock.

Our certificate of incorporation authorizes the issuance of up to 5,000,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our Board of Directors, of which as of the date hereof 6,407 Series A Preferred are issued and outstanding. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which would adversely affect the voting power or other rights of our stockholders. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control, which could have the effect of discouraging bids for our company and thereby prevent stockholders from receiving the maximum value for their shares. We have no present intention to issue any shares of its preferred stock in order to discourage or delay a change of control. However, there can be no assurance that preferred stock will not be issued at some time in the future.

Risks relating principally to our common stock and its market value:

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

- technological innovations or new products and services by us or our competitors;

- additions or departures of key personnel;
- sales of our common stock;
- our ability to integrate operations, technology, products and services;
- our ability to execute our business plan;
- operating results below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

You may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have not paid dividends on our common stock in the past and do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if its stock price appreciates.

Our stock is deemed to be penny stock.

Our stock is currently traded in the pink sheets. We intend to take the necessary steps to have our common stock included for quotation on the OTC Bulletin Board which is generally considered to be a less efficient market than markets such as NASDAQ or other national exchanges, and which may cause difficulty in conducting trades and difficulty in obtaining future financing. Even if our common stock is included for quotation, it will likely be subject to the "penny stock rules" adopted pursuant to Section 15 (g) of the Securities Exchange Act of 1934, as amended, or Exchange Act. The penny stock rules apply to non-NASDAQ companies whose common stock trades at less than $5.00 per share or which have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). Such rules require, among other things, that brokers who trade "penny stock" to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Penny stocks sold in violation of the applicable rules may entitle the buyer of the stock to rescind the sale and receive a full refund from the broker.

Many brokers have decided not to trade "penny stock" because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the "penny stock rules," investors will find it more difficult to dispose of our securities. Further, for companies whose securities are traded in the OTC Bulletin Board, it is more difficult: (i) to obtain accurate quotations, (ii) to obtain coverage for significant news events because major wire services, such as the Dow Jones News Service, generally do not publish press releases about such companies, and (iii) to obtain needed capital.

FORWARD-LOOKING STATEMENTS

Our representatives and we may from time to time make written or oral statements that are "forward-looking," including statements contained in this prospectus and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "may," "should," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors on which such statements are based are assumptions concerning uncertainties, including but not limited to uncertainties associated with the following:

(a) volatility or decline of our stock price;

(b) potential fluctuation in quarterly results;

(c) our failure to earn revenues or profits;

(d) inadequate capital and barriers to raising the additional capital or to obtaining the financing needed to implement its business plans;

(e) inadequate capital to continue business;

(f) changes in demand for our products and services;

(g) rapid and significant changes in markets;

(h) litigation with or legal claims and allegations by outside parties;

(i) insufficient revenues to cover operating costs.

USE OF PROCEEDS

We will receive no proceeds from the sale of shares of common stock offered by the selling securityholders herewith.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in report 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 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.

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, and additional sales locations in Florida and Washington, D.C.

The consolidated financial statements include the accounts of Coda Octopus and our domestic and foreign subsidiaries that are more than 50% owned and controlled except that the financial statements do not include Colmek which was acquired on April 6, 2007. All significant intercompany transactions and balances have been eliminated in the consolidated financial statement.

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.

Background

We are engaged in 3-D subsea technology and are the developer and patent holder of real-time 3-D sonar products which are expected 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 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, US, 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.
- Early recognition of need for 3-D real-time sonar in defense/security applications.
- Expansion into new geographies like North America and the Western hemisphere.
- 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 product market, and that 3-D sonar has disruptive technology qualities, in the early stages of adoption. We believe the market opportunity in underwater security and defense could grow at a rapid pace over the next several years.

Around 91% of our 2006 revenues of $7,291,291 were attributable to pure “products” business. On a pro forma basis, adding the acquired businesses last year would have given us revenues of $11,579,707 and around 43% of our revenues would have been generated from “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 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 accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts 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 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 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 Expense

Stock Based Compensation — SFAS No. 123, "Accounting for Stock-Based Compensation", establishes and encourages 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 permits 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. We use the fair value method for equity instruments granted to employees and 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.

Comparison of Three Months Ended January 31, 2007 compared to Three Months Ended January 31, 2006

Introduction

Due to the acquisition of Martech Systems (Weymouth) Limited ("Martech"), a UK company, in June 2006, the financial information presented for Coda for the three months ended January 31, 2007, includes activity in Martech for that period., combined with revenue, other income and SG&A expenses of Coda for the three months ended January 31, 2007. The financial information presented for the three months ended January 31, 2006 does not include any revenues and expenses for Martech. Due to the disproportionate size of the revenues and expenses in the accompanying unaudited consolidated statements of operations in 2007 compared to those in 2006, comparisons between the two periods may not be meaningful.

Results of Operations

Revenue. Total revenue for the three months ended January 31, 2007 (the "2007 Period") and January 31, 2006 (the "2006 Period") was $2,701,275 and $975,581, respectively, representing an increase of 177%. Compared with the 2006 Period, contributions from Martech

were $720,899 in the 2007 Period. Therefore, there was a 103% increase in our remaining businesses. This was due to a strong demand for our traditional products in the geophysical and hydrographic survey markets.

Margins were stronger in the 2007 Period at 65.2% compared with 63.3% for the 2006 Period reflecting higher product margin sales.

Research and Development (R&D). R&D spending decreased slightly to $518,393 in the 2007 Period from $532,128in 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.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2007 Period increased to $3,224,659 from $1,108,106 during the 2006 Period. Of the 2007 Period costs, $1,594,694 was a non-cash charge relating to stock and options issued. Without this, the SG&A for the Period would have been at the expected level of around $1.6 million for the quarter. This represents an increase over the prior year of around $500,000 which is attributable primarily to the following:

- an increase in the number of employees from 40 at January 31, 2006 to 75 at January 31, 2007;
- the addition of the operations of Martech Systems (Weymouth) Ltd., which added $442,585
- increased accounting, legal and related costs associated with the Company's efforts to establish and operate as a public company in the U.S.

Key areas of expenditure include wages and salaries, where we spent $1,312,505 or 42% of our SG&A costs (2006 Period was $537,230, or 48%); legal and professional fees, including accounting, audit and investment banking services, where we spent $261,821, or 8% of our SG&A costs (2006 Period was $159,560, or 14%); travel, where we spent $100,332, or 3% of our SG&A costs (2006 Period was $54,841, or 5%); and marketing, where we spent $50,295, or 2% of our SG&A costs (2006 Period was $67,977, or 6%).

Financing Expenses. We incurred costs of $435,000 as fees in connection with our financings, which are also included in our loss from operations. These fees covered equity fund raising during the quarter.

As a result of the foregoing, the Company incurred a loss from operations of $2,417,806 during the 2007 Period, as compared to a loss from operations of $1,022,525 during the 2006 Period.

Interest Expense. Interest expense for the 2007 Period increased to $115,211 from $57,100 during the 2006 Period. The increase was primarily due to interest and factoring costs totaling $82,918.

During the 2007 Period, the Company booked charges to represent the fair value of preferred stock and warrants sold within the year totaling $800,000. Net loss applicable to common shares was ($3,330,919) or ($0.13) per share for the 2007 Period as compared to a loss of ($1,079,010), or ($0.05) for the 2006 Period.

Liquidity and Capital Resources

As of January 31 , 2007 the Company had negative working capital of $ 1,168,846. The Company generated a deficit in cash flow from operations of $ 1,660,028 for the three months ended January 31, 2007. This deficit is primarily attributable to the Company's net loss from operations of $3,330,919, adjusted for stock based compensation of $1,594,694 and the beneficial conversion feature attributed to preferred stock of $800,000.

Cash flows used in investing activities for the three months ended January 31, 2007 was $36,840 in connection with the acquisition of equipment.

The Company met its cash requirements during the period through net proceeds from the issuance of equity of $ 800,000 and repayment of debt of $ 317,243.

During April and May 2007, we entered into and consummated securities purchase agreements with a group of accredited individual and institutional investors providing for the sale and issuance of 15,000,000 shared or our common stock and five-year warrants to purchase 7,500,000 shares of common stock at $1.30 per share and five-year warrants to purchase 7,500,000 shares of common stock at $1.70 per share. Gross proceeds from the offering amounted to $15,000,000. 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.

We agreed to file the registration statement of which this prospectus forms a part of the registration of the shares as well as the shares issuable upon exercise of the warrants within 45 days after the closing date of each of the offering and cause it to be declared effective within 90 days after the closing date (135 days assuming a full review by the Securities and Exchange Commission). Only investors who participated in this financing as well as the placement agent for the offering are having shares included in this prospectus. If the registration statement is not declared effective within the time period required, we must pay liquidated damages of 1.5% of the purchase price per month or part thereof up to a maximum of 24% in the aggregate of the purchase price paid. Such damages are payable in cash.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is 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 January 31, 2007 to meet our working capital needs and requirements for the next twelve (12) months, we are seeking 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 the funds required.

Inflation and Foreign Currency

The Company maintains its books in local currency: US Dollars for the parent holding Company in the United States of America, Pound Sterling and Norwegian Krone for its or its United Kingdom and Norwegian operations, respectively.

The Company's operations are primary outside of 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.

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

Comparison of Fiscal Year Ended October 31, 2006 Compared to Year Ended October 31, 2005

Introduction

Due to the acquisition of Martech Systems (Weymouth) Limited ("Martech"), a UK company, in June 2006, the financial information presented for Coda for the year ended October 31, 2006, represents activity in Martech for the periods from the date of their acquisitions to the year ended October 31, 2006, combined with revenue, other income and S G & A expenses of Coda for year ended October 31, 2006. The financial information presented for the year ended October 31, 2005 does not include any revenues and expenses for Martech. Due to the disproportionate size of the revenues and expenses in the accompanying consolidated statements of operations in 2006 compared to those in 2005, comparisons between the two periods may not be meaningful.

Results of Operations

Revenue. Total revenue for the year ended October 31, 2006 (the "2006 Period") and October 31, 2005 (the "2005 Period") was $7,291,291 and $4,288,416, respectively, representing an increase of 70%. During the 2006 Period, the Company entered the 3-D sonar business and enjoyed revenues of $1,298,433 from the introduction and initial sale of seven Echoscope™ units to customers including the U.S. Navy and the U.S. Coast Guard. Sales of the Company's traditional marine product offerings grew by 38.5% to $5,259,172 from $3,795,914, driven by motion sensor sales, which grew by 296.6% over the year.

Research and Development (R&D). R&D spending increased to $3,130,821 in FY 2006, from $1,044,695 in FY 2005 as we directed considerable additional effort into enhancing the Echoscope™ and releasing other products in our suite of marine geophysical offerings.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2006 Period increased to $7,453,946 from $4,349,674 during the 2005 Period. The increase is attributable primarily to the following:

- an increase in the number of employees from 37 at October 31, 2005 to 77 at October 31, 2006;
- additional lease expense associated with Florida operations; and
- increased accounting, legal and related costs associated with the Company's efforts to establish and operate as a public company in the U.S.

All of these additional charges totaled $1,750,685. In addition, non-cash charges for stock-based compensation totaled $2,005,056, an increase of $1,353,587 over the 2005 Period. Key areas of expenditure include wages and salaries, where we spent $3,196,429, or 43% of our SG&A costs; legal and professional fees, including accounting, audit and investment banking services, where we spent $1,272,086, or 17% of our SG&A costs; travel, where we spent $397,137, or 5% of our SG&A costs; and marketing, where we spent $315,265, or 4% of our SG&A costs.

Financing Expenses. We incurred costs of $447,750 as fees in connection with our financings from operations, which are also included in our loss from operations. These fees covered equity fund raising of $8m and the closing of a recourse-based factoring facility which has provided working capital of around $1m over the year.

As a result of the foregoing, the Company incurred a loss from operations of $6,352,816 during the 2006 Period, as compared to a loss from operations of $3,570,753 during the 2005 Period.

Interest Expense. Interest expense for the 2006 Period increased to $1,203,690 from $219,855 during the 2005 Period. The increase was primarily due to non-cash interest costs totaling $784,873, which represent the beneficial conversion feature of warrants issued in connection with our financing.

During the 2006 period, the Company booked charges to represent the fair value of preferred stock and warrants sold within the year totaling $4,536,844. Net loss applicable to common shares was ($12,096,014) or ($0.50) per share in FY 2006 as compared to a loss of ($3,807,055), or ($0.16) in FY 2005.

Cash Flow

Operating Activities. Net cash generated by operating activities for the year ended October 31, 2006 was $121,807 compared with net cash used of $3,569,924 for the year ended October 31, 2005. The key elements of this positive operating cash flow were a decrease in other receivables of $2.26m, which was counterbalanced by an increase in accounts payable of $1.86m and an increase in amounts due to related parties, which totaled $523,076.

Investing Activities. Net cash used by investing activities for the year ended October 31, 2006 was $1,103,621 compared with $272,157 for the year ended October 31, 2005. This was primarily due to the acquisition of Martech for $1,154,590.

Financing Activities. Net cash provided by financing activities for the year ended October 31, 2006 was $2,378,108 compared with $3,698,660 for the year ended October 31, 2005. This was primarily due to a repayment of loans of $2,106,342 for the 2006 Period as opposed to proceeds from loans of $2,898,126 for the 2005 Period. This was somewhat offset by an increase in the proceeds from the sale of stock to $4,564,100 from $800,534.

Liquidity and Capital Resources

As of October 31, 2006, the Company had negative working capital of $ 1,063,125. The Company generated a cash flow from operations of $121,807 for the year ended October 31, 2006. This cash flow is primarily attributable to the Company's net loss from operations of $ 12,096,014, adjusted for stock based compensation of $2,005,056, the beneficial conversion feature attributed to preferred stock of $4,152,800 and an increase in accounts receivable of $2,260,315.

Cash flows used in investing activities for the year ended October 31, 2006 was $1,103,621, primarily due to the purchase of Martech Systems of $ 1,154,590.

The Company met its cash requirements during the period through net proceeds from the issuance of equity of $4,564,100 and repayment of debt of $2,106,342.

During April and May 2007, we entered into and consummated securities purchase agreements with a group of accredited individual and institutional investors providing for the sale and issuance of 15,000,000 shares of our common stock and five-year warrants to purchase 7,500,000 shares of common stock at $1.30 per share and five-year warrants to purchase 7,500,000 shares of common stock at $1.70 per share. Gross proceeds from the offering amounted to $15,000,000. 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.

We agreed to file the registration statement of which this prospectus forms a part for the registration of the shares as well as the shares issuable upon exercise of the warrants within 45 days after the closing date of each of the offering and cause it to be declared effective within 90 days after the closing date (135 days assuming a full review by the Securities and Exchange Commission). Only investors who participated in this financing as well as the placement agent for the offering are having shares included in this prospectus. If the registration statement is not declared effective within the time period required, we must pay liquidated damages of 1.5% of the purchase price per month or part thereof up to a maximum of 24% in the aggregate of the purchase price paid. Such damages are payable in cash.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is 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 October 31, 2006 to meet our working capital needs and requirements for the next twelve (12) months, we are seeking 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 the funds required.

Inflation and Foreign Currency

The Company maintains its books in local currency: US Dollars for the parent holding Company in the United States of America, Pound Sterling and Norwegian Kroner for its or its United Kingdom and Norwegian operations, respectively.

The Company’s operations are primary outside of 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 United Kingdom operation's pound sterling denominated balance sheets into U.S. dollars, as of October 31, 2006, has been affected by the weakening of the U.S. dollar against the pound sterling from 1.76 as of October 31, 2005, to 1.90 as of October 31, 2006, an approximate 8 % depreciation in value. The average pound sterling /U.S. dollar exchange rates used for the translation of the United Kingdom operation's pound sterling denominated statements of operations into U.S. dollars, as of October 31, 2006 and 2005 were 1.80 and 1.82, respectively.

The translation of the Company's Norwegian operation's Kroner denominated balance sheets into U.S. dollars, as of October 31, 2006, has not been materially affected by the currency fluctuations of the U.S. dollar against the Kroner from 0.154 as of October 31, 2005, to 0.153 as of October 31, 2006, an approximate 0.7% change in value. The average Kroner /U.S. dollar exchange rates used for the translation of the Norwegian operation's Kroner denominated statements of operations into U.S. dollars, as of October 31, 2006 and 2005 were 0.15 and 0.15, respectively.

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

Financing Activities

Since February 2005, we have raised approximately $24,724,289 in cash through the issuance in private offerings at various times of shares of our common stock, and units consisting of shares of preferred stock and warrants to purchase common stock.

In February 2005, we issued a total of 1,000,000 shares of our common stock for a total cash consideration of $800,534.

In October 2005, we issued to one investor a total of 15,000 Series A Preferred Stock (Sterling Denominated), since converted into 2,655,000 shares of common stock, for a total cash consideration of £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.

On April 30, 2006, we issued a total of 7,320.88 shares of our Series A Preferred Stock to a group of individual investors for total cash consideration of £684,618.83 UK Pounds equivalent to $1,211,775 based upon a conversion ratio of $1.77 for each UK Pound at the time of the investment.

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 have since been converted into 481,900 shares of common stock.

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 820,000 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 have since been converted into 2,300,000 shares of our common stock.

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 February 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.

During April and May 2007, we issued to a group of investors a total of 15,000,000 shares of our common stock plus five-year warrants to purchase the same amount of shares of common stock (of which 7,500,000 may be purchased at $1.30 and the balance at $1.70 per share) for a total of $15,000,000.

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.

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 are expected 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 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.

- Early recognition of need for 3-D real-time sonar in defense/security applications.

- Expansion into new geographies like North America and the Western hemisphere.

- 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, and that 3-D sonar has disruptive technology qualities, in the early stages of adoption. 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 CodaOctopus 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 brand 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, allowed Coda Octopus 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.

In July 2004, the shareholders of Coda Octopus Ltd exchanged their shares for shares in The Panda Project, Inc. ("Panda"), a publicly traded corporation which at the time had no assets, liabilities or business operations. As a result of such reverse acquisition, the shareholders of Coda Octopus became the owners of 90.9% of the outstanding shares of Panda. Upon completion of the exchange, the name of The Panda Project, Inc. was changed to Coda Octopus Group, Inc. and its state of incorporation was changed from Florida to Delaware. Panda had been incorporated in 1992, and prior to the share exchange, it had been engaged in the design, development and manufacture of interconnect solutions to generate greater throughput from silicon to board to system. By the end of 2000, it had disposed of all of its assets and liabilities and became a publicly traded shell corporation.

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 key 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 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, which is where we will be building our Echoscope™ and derivative products from June 2007 onwards.

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 important and influential organizations such as Stanford Research International (SRI) 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 five separate subsidiary companies, which are described below.

Coda Octopus Products Ltd

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, 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').

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.

The Company markets and sells through an extensive network of personal contacts established in the industry over the almost twenty years that Martech has been in existence. This contact base allows the Company to become aware of upcoming opportunities and then allows the Company to express interest and subsequently seek to be listed 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 and local and Federal government agencies. Innalogic is in the process of executing or has completed nine customer contracts, of which eight are for domestic organizations and one for an overseas customer. These range in value from $40k to $320k.

Miller & Hilton 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 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. For more than a quarter century, Colmek has been solving system-critical problems for leading defense, research and exploration companies in the US. 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 markets, selling our products, systems and solutions. This will be the 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.

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 requirements employing sidescan and sub-bottom data acquisition. The Octopus brand instruments are rugged, simple-to-use work-horse products employing sidescan and sub-bottom profiling. They are used by survey companies, navies and academic organizations, where simple installation and minimal training is required.

The products marketed under the Coda™ brand consist of the following:

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 DA200, for simultaneous acquisition of sidescan and shallow seismic data, the DA100, for acquisition of either sidescan or shallow seismic data, and the DA50, a portable version of the DA100.

Coda GeoSurvey Productivity Suite

The GeoSurvey Productivity Suite is a software system 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”).

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 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 military agencies.

The Echoscope™, in its simplest form as a stand alone product, is priced at $250,000. We have been delivered 12 of these to customers since its introduction. In addition, a number of our these 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 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. The UIS™ is built on the extensive knowledge gained in the development and testing of a Mobile Inspection Package which was developed in collaboration with the Center for Ocean Technology, University of South Florida, with funding from United States Office of Naval Research (ONR) and United States Coast Guard (USCG).

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.

Octopus® brand products:

The Octopus® brand products consist of instruments and equipment which meet the requirements of all survey applications, from the smallest inshore surveys to rapid naval reconnaissance to large scale site investigations, and which have been used throughout the world. They include the following.

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.

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.

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.

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.

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, it 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.

In the past, Martech's contracts ranged in amounts between a few thousand dollars up to around a million dollars. It is currently bidding on and obtaining contracts in the $500,000 - $1,000,000 range in addition to continuing to seek smaller contracts.

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. 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 skill set in its pre-existing businesses.

This acquisition provides Coda Octopus with an additional established and growing revenue stream in the 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 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, it 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.

In the past Colmek's 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 31st, 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, and 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) have become the nucleus for our research and development center, based in Bergen, Norway. They also benefit from strong and long lasting links with the University of Bergen. We have also developed close links to the Center for Ocean Technology (COT), formerly based within the University of South Florida (USF) in St Petersburg, Florida, now part of Stanford Research International (SRI) at St Petersburg. 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.

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 three places at present. Our data acquisition products and motion sensors are produced in the UK in our production facility, and distributed from there. Our printers are currently outsourced and produced on contract for us in Weymouth, though we are currently reviewing this arrangement with a view to taking this in house in the near future.

Our Echoscope™ product is currently produced in Bergen, Norway, where the Echoscope™ was originally developed, though this is only for the short-term. We have recently established an assembly facility in St Petersburg, Florida, where our Echoscope™ product will be assembled, tested, calibrated and supported to replace any manufacturing and support which is currently provided from Bergen, Norway.

Marketing

We conduct worldwide sales and marketing through each company individually, with our Chief Commercial Officer coordinating sales and marketing efforts at Group level to gain synergies wherever possible, as well as national and international exposure for the Company and its capabilities. This structure provides dedicated sales effort in each of the Group companies. In each case each sales person is charged with selling that Company's products alone. 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 - one full time staff in Salt Lake City and one in Washington, DC
- Innalogic Inc - one staff member based in New York City, USA
- Port Security Group - currently being developed by Group-level staff
- Group level - two members 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.

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, these are distributed globally for Coda Octopus Products, within the UK for Martech and within the USA for Colmek Systems Engineering, and Innalogic.

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 Group, a lobbying firm based in Washington, DC, assists at a congressional level and has been employed by the Group for the past 18 months;

- 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 Charles Group, a lobbying firm based in Washington, DC, is assisting in reaching the government agencies, such as the FBI, US Secret Service, DEA, etc.;

- 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.

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 2006-2007 of $190,000 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 unregistered trademarks:

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

In addition, we have registered the internet domain names “codaoctopus.com”, “theportsecuritygroup.com”, “3dsonar.com” and “portsecurity.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 90 employees:

- 6 are employed in research and development in our Bergen facility
- 6 are employed in production, marketing and administration at our Oxford facility
- 21 are employed in software development, marketing and administration at our Edinburgh office
- 7 are employed in management and administration at our New York City office
- 2 are employed in sales and marketing at our Florida office
- 2 are employed in Government Relations at our Washington office
- 27 are employed in Martech in Weymouth, of which 24 are full time employees and 3 are part time (paid on an hourly basis) with the main categories of employees being chief engineer, senior engineer, engineer, technician and junior engineer
- 19 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.

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.

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 $6,500 per month.

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 US Sales and Marketing staff and is located close to the University of South Florida, which is convenient for conducting trials and demonstrations of our products. The lease 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 13th Street, N.W, Washington, D.C. 20005 (10th 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, USA. 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 an annual rental of $3,795 per month (and stipulates an annual increase of 3%) and 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 $125,921 based on an exchange rate of $1.92) and expires on September 26th, 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 26th, 2011.

Edinburgh, Scotland, UK. Our wholly owned UK Subsidiary, Coda Octopus Products Limited, leases workshop and manufacturing facilities at Unit 3, Corunna Place, Edinburgh comprising 1,000 square feet and used as workshop space. The lease provides for a rental of £7,100 per annum (£591.66 per month - equivalent to $1,136 based on an exchange rate of $1.92) and expires on 31 July 2009.

Oxford, England, UK. Our UK wholly owned subsidiary, Coda Octopus Products Limited, also leases 2,500 sq. ft. of office and warehouse space in a small industrial park located in Suite 3, Business Centre, Castle Farm, Deddington, Oxfordshire. This space is all on one floor and houses production, inventory, marketing and administration. The location is convenient for access to the entire South of England and its transport connections. The lease provides for an annual rental of £26,000 (equivalent to $49,920 based on an exchange rate of $1.92) on a rolling monthly basis. Notice of surrender of the lease has been served and we intend to vacate these premises by August 2007.

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. The lease provides for an annual rent of £29,984.74 (equivalent of $57,571 based on an exchange rate of $1.92) 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 houses 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 $26,864.70 per annum 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.

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 $71,592 based on an exchange rate of 6.1529) and expires in May 31, 2012. We have the option to terminate this after 5 years without incurring any penalties.

Legal Proceedings

We are not currently subject to any legal proceedings that may have an adverse impact on our assets or results of operations.

DIRECTORS AND EXECUTIVE OFFICERS

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, Interim Chief Financial Officer and Director
Paul Nussbaum	59	Chairman of the Board of Directors stale
Rodney Peacock	61	Director
Blair Cunningham	38	Senior Vice President Products division
Anthony Davis	41	Senior Vice President Commercial Division
Frank B. Moore	72	Senior Vice President - Government Liaison
Geoff Turner	54	Senior Vice President - Mergers and Acquisitions
Scott Debo	37	President and Chief Executive Officer of Colmek

Jason Reid has served since June, 2004 as a director and President 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, 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, 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.

Blair Cunningham has served as Senior Vice President Products Division 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 as Senior Vice President Commercial Division of Coda Octopus Group, Inc since July 2005. 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 in 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 Liaison of Coda Octopus Group, Inc since May 2006. 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 as Senior Vice President for Mergers and Acquisitions of Coda Octopus Group, Inc since May 2006. 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.

Scott Debo

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, if any.

We are currently in discussions with a candidate for the position of Chief Financial Officer.

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 to:

- 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").

EXECUTIVE COMPENSATION

The Summary Compensation Table shows certain compensation information for services rendered in all capacities for the fiscal years ended October 31, 2006 and 2005. In addition, the table shows compensation for our current executive officers. Other than as set forth herein, no executive officer's salary and bonus exceeded $100,000 in any of the applicable years. The following information includes the dollar value of base salaries, bonus awards, the number of stock options granted and certain other compensation, if any, whether paid or deferred. Conversion rates for 2006, 2005 of one UK Pound were $1.7842, $1.8457, respectively. Other annual compensation consisted of car allowances, re-location expenses, disability payments, health insurance and/or pension benefits. Other annual compensation consisted of car allowances, re-location expenses, disability payments, health insurance and/or pension benefits.

Summary Compensation Table*

Name and Principal Position	Year	Salary (1)	Bonus	Restricted Stock Awards	Option Awards	All Other Compensation	Total
		($)	($)	($)	($) (2)	($)	($)
Jason Reid	2006	250,000	-0-	$100,000 (8)	-0-	12,667	362,667
President and Chief Executive Officer	2005	215,047	-0-	-0-	$107,060(3)	-0-	322,107
Blair Cunningham	2006	144,072	-0-	$43,750 (9)	-0-	20,249	208,071
Chief Technology Officer	2005	154,317	-0-	-0-	$53,530(4)	19,299	227,146
Anthony Davis	2006	163,796	-0-	$43,750(10)	-0-	10,858	218,404
Chief Commercial Officer	2005	134,836	-0-	-0-	$40,148(5)	-0-	174,984
Geoff Turner (5)							
Senior Vice President Mergers &	2006	178,000	-0-	-0-	-0-	-0-	178,000
Acquisition	2005	29,667	-0-	-0-	$58,285(6)	-0-	87,952
Frank Moore (5)							
Senior Vice President Government							
Liaison	2006	75,000	-0-	$31,250(11)	$37,001(7)-	2,500	145,751

* 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 and the other tables set forth in this section.

(1) A portion of these amounts were paid in UK Pounds (the conversion rate used in this table for these amounts is $1.8457 per UK Pound).

(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) 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

(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 2006

Name	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Jason Reid *President and Chief Executive Officer*	400,000 (1)	$ 1.00	May 2010
Blair Cunningham *Senior Vice President Products Division*	200,000 (2)	$ 1.00	May 2010
Anthony Davis *Senior Vice President Commercial Division*	150,000 (3)	$ 1.00	May 2010
Geoff Turner *Senior Vice President Mergers & Acquisition*	150,000 (4)	$ 1.00	November 2010
Frank Moore *Senior Vice President Government Liaison*	150,000 (4)	$ 1.00	May 2011

(1) Consists of 268,000 vested options and 132,000 that had not vested as of the fiscal year end. All options reported in this column have since vested.

(2) Consists of 134,000 vested options and 66,000 that had not vested as of the fiscal year end. All options reported in this column have since vested.

(3) Consists of 100,500 vested options and 49,500 which in accordance with the terms of the vesting schedule will vest on November 1 2007.

(4) Consists of 100,500 vested options and 49,500 which in accordance with the terms of the vesting schedule will vest on 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)
Paul Nussbaum	$ 25,000 (2)	$ 25,000(5)	75,000
Rodney Peacock	15,000 (3)	$ 15,000 (6)	50,000
William Ahearn (1)	-0-	-0-	-0-

(1) William Ahern died on June 15, 2006 and all information is through that date. This table reflects his compensation as a director only. Mr. Ahearn received compensation in his capacity as SVP Research and Development.

(2) Consists of an annual retainer in the amount of $40,000 and $2,500 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 $20,000 and $2,500 per board meeting attended. Half of these amounts is payable in the Company's Stock.

(4) Options issued in 2006 have an exercise price of $1.50 per share.

(5) Consist of 20,000 shares.

(6) Consist of 12,000 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 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 the same date, each director also received five-year options to purchase 200,000 shares of our common stock, exercisable at $1.00 per share. 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 to Messrs. Nussbaum and Peacock terminate at such time as the individual is no longer serving as a director.

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 be 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 the 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, 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 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.

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 Vice-President, Commercial Division. 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. Mr. Davis 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. Davis is entitled to receive 50,000 shares of the Company's common stock for services performed through October 31, 2006 and thereafter $12,500 of common stock 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 Vice-President, Products Division. 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 $350,000 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 $12,500 of common stock 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 $350,000 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 $12,500 of common stock 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.

Geoff Turner

On November 1, 2005, 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:

- assist management with the analysis and implementation of its business plan;
- explore acquisitions, strategic alliances, partnering opportunities and other cooperative ventures within and without its present industry focus;
- evaluate possible acquisition and strategic partnering candidates;
- evaluate merger and acquisition strategies, including the evaluation of targets and the structuring of transactions; and
- 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. 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 $175,000 for his services.

Scott DeBo

On April 6, 2007, our key subsidiary, Colmek Engineering Systems, 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 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 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 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 to, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

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

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 is for a fixed period of one year and, unless renewed by mutual consent, terminates thereafter.

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 2005 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, no stock options can be granted in the future under the 2004 Plan.

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 May 1, 2007, we had granted non-qualified options to purchase an aggregate of 3,430,000 shares of its common stock at exercise prices ranging from $1.00 per share to $1.50 per share, of which 2,826,000 have vested.

Section 16(a) Beneficial Ownership Reporting Compliance

Our common stock is not registered under the 1934 Act. Therefore, none of our executive officers, directors and all persons who own more than ten percent of our common stock was required to comply with Section 16(a) filing requirements during the relevant time periods.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of May 11, 2007 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.

Unless otherwise indicated, the address of each beneficial owner is in care of the Company, 164 West 25th 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)	23,695,112	49.56%
Paul Nussbaum (4)	496,293	1.0%
Rodney Peacock (5)	458,211	*
Blair Cunningham (6)	474,797	*
Anthony Davis (7)	372,797	*
Frank B. Moore (8)	247,797	*
Geoff Turner (9)	172,797	*
Scott Debo (10)	139,358	*
Vision Opportunity Master Fund Limited (11) 317 Madison Avenue, Suite 1220 New York, NY 10017	13,014,100	
All Directors and Executive Officers as a Group (eight persons):	26,057,162	54.501%

* 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 May 11, 2007 and (ii) shares of restricted stock, including restricted stock awards issuable within 60 days of May 11, 2007.

(3) Includes the following: (i) 400,000 shares issuable upon exercise of options, (ii) 19,515,084 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 and Softworks 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 19,084 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(4) Includes 200,000 shares issuable upon exercise of options and includes 4,771 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(5) Includes 200,000 shares issuable upon exercise of options and includes 2,863 shares earned during the quarter ended April 30, 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 includes 11,927 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(7) Includes 150,000 shares issuable upon exercise of option and includes 11,927 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(8) Includes 150,000 shares issuable upon exercise of options and includes 11,927 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(9) Includes 150,000 shares issuable upon exercise of options.

(10) Includes 80,000 shares issuable upon exercise of option and includes 2,144 shares earned during the quarter ended April 30, 2007 that have not been issued to date.

(11) Includes 9,200,000 shares issuable upon exercise of warrants. The percentage ownership for Vision reflects a provision in the warrants owned by Vision 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.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is currently traded in the pink sheets under the symbol CDOC. We intend to take the necessary steps to have our common stock included for quotation on the OTC Bulletin Board. However, there can be no assurance that our stock will be accepted for quotation.

The following table shows the reported high and low closing bid quotations per share for our common stock based on information provided by 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, 2005	HIGH	LOW
First Quarter	1.05	0.35
Second Quarter	1.01	0.30
Third Quarter	1.01	0.35
Fourth Quarter	0.75	0.30

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

Number of Stockholders

As of May 11, 2007, there were approximately 543 holders of record of our common stock.

Dividend Policy

Historically, we have not paid any dividends to the holders of our common stock and we do not expect to pay any such dividends in the foreseeable future as we expect to retain our future earnings for use in the operation and expansion of our business.

SELLING STOCKHOLDERS

The following table presents information regarding the selling stockholders.

Selling Stockholder	Shares Benficially Owned Prior to Offering*	Shares to be Sold in Offering	Shares Beneficially Owned After Offering	Perecentage Beneficial Ownership After Offering
JMG Capital Partners, LP (1)	2,000,000	2,000,000	-0-	n/a
JMG Triton Offshore Fund, Ltd. (2)	2,000,000	2,000,000	-0-	n/a
MM & B Holdings, a California general partnership (3)	2,000,000	2,000,000	-0-	n/a
IRA FBO J. Steven Emerson Rollover II Pershing LLC as Custodian (4)	1,600,000	1,600,000	-0-	n/a
IRA FBO J. Steven Emerson Roth Pershing LLC as Custodian (4)	1,300,000	1,300,000	-0-	n/a
Emerson Partners (4)	400,000	400,000	-0-	n/a
J. Steven Emerson Investment Account (4)	500,000	500,000	-0-	n/a
JMB Capital Partners, L.P. (5)	4,000,000	4,000,000	-0-	n/a
The Jay Goldman Master L.P. (6)	500,000	500,000	-0-	n/a
Woodmont Investments, Ltd. (6)	500,000	500,000	-0-	n/a
John B. Davies	200,000	200,000	-0-	n/a
Steven B. Dunn	500,000	500,000	-0-	n/a
The Muhl Family Trust, Phillip E. Muhl & Kristin A. Muhl TTEE DTD 10-11-95	200,000	200,000	-0-	n/a
Apex Investment Fund, Ltd. (7)	1,000,000	1,000,000	-0-	n/a
G. Tyler Runnels or Jasmine Niklas Runnels TTEES The Runnels Family Trust DTD 1-11-2000	300,000	300,000	-0-	n/a
TRW Capital Growth Fund, LP (8)	300,000	300,000	-0-	n/a
Joseph H. Merback & Tema N. Merback Co-TTEE FBO Merback Family Trust UTD 8-30-89	200,000	200,000	-0-	n/a
B & R Richie's (9)	100,000	100,000	-0-	n/a
Charles B. Runnels Family Trust DTD 10-14-93 Charles B. Runnels & Amy Jo Runnels TTEES	50,000	50,000	--0-	n/a
Karen Kang	20,000	20,000	-0-	n/a
Christopher G. Niklas	20,000	20,000	-0-	n/a
Newberg Family Trust UTD 12/18/90	800,000	800,000	-0-	n/a
John W. Galuchie, Jr. & Marianne C. Galuchie Trustees Galuchie Living Trust DTD 9/11/00	20,000	20,000	-0-	n/a
Rockmore Investment Master Fund Ltd. (10)	500,000	500,000	-0-	n/a
Bristol Investment Fund, Ltd. (11)	1,000,000	1,000,000	-0-	n/a
Whalehaven Capital Fund Limited (12)	800,000	800,000	-0-	n/a
Cranshire Capital, LP (13)	500,000	500,000	-0-	n/a
Scot Cohen	600,000	600,000	-0-	n/a
Iroquois Master Fund, Ltd. (14)	800,000	800,000	-0-	n/a
David Sidoo	200,000	200,000	-0-	n/a
Andrew Lessman	2,000,000	2,000,000	-0-	n/a
Arden Merback	100,000	100,000	-0-	n/a
Andrew C. Sankin	300,000	300,000	-0-	n/a
Matthew Weiss and Michele Weiss JT TEN	200,000	200,000	-0-	n/a
Epsom Investment Services, N.V. (15)	200,000	200,000	-0-	n/a

Asset Protection Fund Ltd. (16)	1,000,000	1,000,000	-0-	n/a
Lord Robin Russell	200,000	200,000	-0-	n/a
W Robert Ramsdell & Majorie F Ramsdell TTEE Ramsdell Family Trust DTD 77/94	200,000	200,000	-0-	n/a
Core Fund L.P. (17)	200,000	200,000	-0-	n/a
Ganesha Capital LLP (18)	300,000	300,000	-0-	n/a
Scot J Cohen	1,400,000	1,400,000	-0-	n/a
Philip Mirabelli	100,000	100,000	-0-	n/a
Andrew C Sankin	590,000	590,000	-0-	n/a
Joshua Silverman	100,000	100, 000	-0-	n/a
Richard K Abbe Custodian for Talia Abbe	66,668	66,668	-0-	n/a
Richard K Abbe Custodia for Samantha Abbe	66,666	66,666	-0-	n/a
Richard K Abbe Custodian for Bennett Abbe	66,666	66,666	-0-	n/a
T R Winston & Company (19)	2,400,000	2,400,000	-0-	n/a
Total	**32,400,000**	**32,400,000**		

* The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholder has sole or shared voting power or investment power and also any shares, which the selling stockholder has the right to acquire within 60 days. Nevertheless, for purposes hereof, for each selling stockholder does not give effect to the 4.9% limitation on the number of shares that may be held by each stockholder as agreed to in the warrant held by each selling stockholder which limitation is subject to waiver by the holder upon 61 days prior written notice to us (subject to a further non-waivable limitation of 9.99%). For each selling stockholder, the number of shares beneficially owned prior to this offering consists of shares of common stock currently owned by the selling stockholder as well as an equal number of shares of common stock issuable upon the exercise of warrants.

(1) JMG Capital Partners, LP ("JMG Partners") is a California limited partnership. Its general partner is JMG Capital Management, LLC (the "Manager"), a Delaware limited liability company and an investment advisor that has voting and dispositive power over JMG Partners' investments, including the securities included herein. The equity interests of the Manager are owned by JMG Capital Management, Inc., a California corporation and Asset Alliance Holding Corp., a Delaware corporation. Jonathan M. Glaser is the executive officer and director of JMG Capital and has sole investment discretion over JMG Partners' portfolio holdings.

(2) JMG Triton Offshore Fund, Ltd. (the "Fund") is and international business company organized under the laws of the British Virgin Islands. The Fund's investment manager is Pacific Assets Management LLC, a Delaware limited liability company (the "Manager") that has voting and dispositive power over the Fund's investments, including the securities included herein. The equity interests of the Manager are owned by Pacific Capital Management Inc., a California corporation ("Pacific") and Asset Alliance Holding Corp., a Delaware corporation. The equity interests of Pacific are owned by Roger Richter, Jonathan Glaser and Daniel David. Messrs. Glaser and Richter share investment and voting control over the Fund's portfolio holdings.

(3) Bryan Ezralow as trustee of the Bryan Ezralow 1994 Trust, general partner of MM & B Holdings has voting and dispositive power over the shares held by that entity.

(4) J Steven Emerson has voting and dispositive control over the shares held by these selling stockholders.

(5) Jon Brooks has voting and dispositive control over the shares held by JMB Capital Partners.

(6) Jay Goldman has voting and dispositive control over the shares held by The Jay Goldman Master L.P.

(7) Susan Fairhurst voting and dispositive control over the shares held by Apex.

(8) G. Tyler Runnels has voting and dispositive power over the shares held by TRW Capital Growth Fund, LP.

(9) Bradley Ross has voting and dispositive control over the shares held by B&R Richies.

(10) Rockmore Capital, LLC ("Rockmore Capital") and Rockmore Partners, LLC ("Rockmore Partners"), each a limited liability company formed under the laws of the State of Delaware, serve as the investment manager and general partner, respectively, to Rockmore Investments (US) LP, a Delaware limited partnership, which invests all of its assets through Rockmore Investment Master Fund Ltd., an exempted company formed under the laws of Bermuda ("Rockmore Master Fund"). By reason of such relationships, Rockmore Capital and Rockmore Partners may be deemed to share dispositive power over the shares of our common stock owned by Rockrnore Master Fund. Rockmore Capital and Rockmore Partners disclaim beneficial ownership of

such shares of our common stock. Rockmore Partners has delegated authority to Rockmore Capital regarding the portfolio management decisions with respect to the shares of common stock owned by Rockmore Master Fund and, as of September 17th, 2006, Mr. Bruce T. Bernstein and Mr. Brian Daly, as officers of Rockmore Capital, are responsible for the portfolio management decisions of the shares of common stock owned by Rockmore Master Fund. By reason of such authority, Messrs. Bernstein and Daly may be deemed to share dispositive power over the shares of our common stock owned by Rockmore Master Fund. Messrs. Bernstein and Daly disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. No person or "group" (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G) controls Rockmore Master Fund.

(11) Bristol Capital Advisers, LLC ("BCA") is the investment advisor to Bristol Investment Fund, Ltd. ("Bristol"). Paul Kessler is the manager of BCA and as such has voting and investment control over the securities held by Bristol. Mr. Kessler disclaims beneficial ownership of these securities.

(12) Michael Finkelstein (Investment Manager), Arthur Jones, Trevor Williams, and Marco Weisfeld (Directors) have voting and dispositive control over the shares held by Whalehaven Capital Fund Limited.

(13) Mitchell P. Kopin, president of Downsview Capital, Inc., the general partner of Cranshire Capital, LP has sole voting and investment power of these securities.

(14) Joshua Silverman has voting and investment control over the shares held by Iroquois Master Fund Ltd. Mr. Silverstein disclaims beneficial ownership of these shares.

(15) Steven Drayton has sole voting and investment power of the securities held by Epsom.

(16) David Dawes and Christoph Langenauer share voting and dispositive control over the shares held by Asset Protection Fund Ltd.

(17) Steven Shum has sole voting and investment power over the securities held by Core Fund, L.P.

(18) Simon John Evans has sole voting and investment power over the securities held by Ganesha Capital.

(19) G. Tyler Runnels, the firm's Chairman and Chief Executive Officer has voting and investment power over the shares held by T.R. Winston.

RECENT FINANCING

Between April and May, 2007, we entered into and consummated a securities purchase agreement with a group of accredited investors providing for the sale and issuance of 15,000,000 shares of our common, five-year warrants to purchase 7,500,000 shares of common stock at $1.30 per share and five-year warrants to purchase 7,500,000 shares of common stock at $1.70 per share. Gross proceeds from the offering amounted to $15,000,000. We also issued five-year warrants to purchase 2,400,000 shares of our common stock at $1.00 per share as part of the placement agent fees.

We agreed to file the registration statement of which this prospectus forms a part for the registration of the shares as well as the issuable upon exercise of the warrants within 45 days after the closing date of each offering and cause it to be declared effective within 90 days after the closing date (135 days assuming a full review). Only investors who participated in this financing are having shares included in this prospectus. If the registration statement is not declared effective within the time period required, we must pay liquidated damages of 1.5% of the purchase price per month or part thereof up to a maximum of 24% in the aggregate of the purchase price paid. Such damages are payable in cash.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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 are 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 $2 per share. 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_ and the Company_ entered into lock-up agreements to prohibit the resale of their Common Stock until six months after an effective registration statement (the "Lock-up Period") registering the resale of Vision's overlying Common Stock, except that the said named individuals may transfer a maximum of 200,000 shares every three months during the Lock-up Period. We also issued to Ulysses Financial LLC, two five-year warrants to purchase 160,000 shares exercisable at $1.30 per share and five-year warrants to purchase an aggregate of 160,000 shares exercisable at $1.70 per share. 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 preferred stock were converted into 2,781,900 shares of the Company's Common Stock. Further, pursuant to the terms of the offering of the Company dated May 3, 2007, the Company repurchased on May 10 2007, 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. These repurchased shares were cancelled by the Company. This amount was financed from the proceeds of the offering and accords with the use of proceeds provision in the offering.

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.

On October 31, 2006 we issued to Softworks Limited, a company incorporated under the laws of the United Kingdom and being an affiliate of Mr. Jason Reid and Mr. Blair Cunningham 500 Series A Preferred Stock in settlement of a debt of £28,248.59 owed by the Company. At the option of the holder, in April 2007 these were converted into 50,000 shares of Common Stock and, in consideration for this early conversion, we issued warrants to purchase 50,000 shares of common stock at a price ranging from $1.30 and $1.70.

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.

In April 2007, as consideration for two officers of the Company early conversion of 820 Series A Preferred Stock, we issued to these two investors 5 year warrants to purchase 164,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70 per share.

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.

Our wholly owned subsidiary Coda Octopus (US) Holdings Limited 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). This amount is guaranteed by the Company and is secured by a pledge in favour 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.

DESCRIPTION OF SECURITIES

Our authorized capital consists of 100,000,000 shares of common stock, $.001 par value per share, of which 47,809,750 shares were issued and outstanding as of May 11, 2007, and 5,000,000 shares of Preferred Stock, of which 50,000 shares have been designated as Series A Preferred Stock and 50,000 have been designated as Series B Convertible Preferred Stock.

As of April 30, 2007, 6,407 shares of Series A Preferred Stock were issued and outstanding

The following description is a summary and is qualified in its entirety by our Certificate of Incorporation and By-laws as currently in effect.

Common Stock

Each holder of common stock is entitled to receive ratable dividends, if any, as may be declared by the Board of Directors out of funds legally available for the payment of dividends. As of the date of this prospectus, we have not paid any dividends on our common stock, and none are contemplated in the foreseeable future. We anticipate that all earnings that may be generated from our operations will be used to finance our growth.

Holders of common stock are entitled to one vote for each share held of record. There are no cumulative voting rights in the election of directors. Thus the holders of more than 50% of the outstanding shares of common stock can elect all of our directors if they choose to do so.

The holders of our common stock have no preemptive, subscription, conversion or redemption rights. Upon our liquidation, dissolution or winding-up, the holders of our common stock are entitled to receive our assets pro rata.

Preferred Stock

Series A Preferred Stock

Each holder of our Series A Preferred Stock is entitled in preference to holders of our common stock to receive dividends in the amount of 12% per annum, payable semi-annually. Such dividends are payable, at the option of the holder, in cash or shares of common stock valued at the average closing price for the ten trading days preceding the dividend date. Each share of Series A Preferred entitled the holder to 100 votes on all matters submitted to a vote of the stockholders

Until the seventh anniversary of the date of issuance, each share of Series A Preferred is convertible at the option of the holder into 100 shares of common stock if the Series A Preferred was acquired in US dollars and 177 shares if the Series A Preferred Stock was acquired in pound sterling.

As amended, the certificate of designation for the Series A Preferred Stock provides that, at the option of the company, the Series A Preferred may be converted into such number of shares of common stock as is equal to their purchase price plus any accrued and unpaid dividends commencing one year after the date of issuance if the closing price of common stock is at least $3.00 for the twenty days prior to the receipt by the holders of a conversion notice.

Series B Preferred Stock

Currently, no Series B Preferred Stock are issued. With respect to dividends, a liquidation of the Company and the payment of consideration in the event of a merger or sale of the Company's assets, the Series B Preferred Stock ranks junior to the Series A Preferred Stock and senior to all other classes of stock, including common stock.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Olde Monmouth Stock Transfer Co., Inc with a mailing address of 200 Memorial Parkway, Atlantic Highlands, New Jersey 07716.

PLAN OF DISTRIBUTION

Each Selling Stockholder (the "Selling Stockholders") of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A Selling Stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the common stock or interests therein, the Selling Stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The Selling Stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The Selling Stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each Selling Stockholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the Common Stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because Selling Stockholders may be deemed to be "underwriters" within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the Selling Stockholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the Selling Stockholders without registration and without regard to any volume limitations by reason of Rule 144(k) under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the Selling Stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the Selling Stockholders or any other person. We will make copies of this prospectus available to the Selling Stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

LEGAL MATTERS

The validity of the common stock has been passed upon by Sichenzia Ross Friedman Ference LLP, New York, New York.

EXPERTS

The Company's balance sheet as of October 31, 2006, and the related statements of operations, changes in stockholders' equity and cash flows for the years ended October 31, 2006 and 2005 included in this Prospectus have been audited by Russell Bedford Stefanou Mirchandani LLP, as set forth in their report appearing elsewhere herein and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We filed with the SEC a registration statement on Form SB-2 under the Securities Act for the common stock to be sold in this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and schedules that were filed with the registration statement. For further information with respect to the common stock and us, we refer you to the registration statement and the exhibits and schedules that were filed with the registration statement. Statements made in this prospectus regarding the contents of any contract, agreement or other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedules that were filed with the registration statement may be inspected without charge at the public reference facilities maintained by the SEC, 100 F Street, Washington, DC 20549. Copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information regarding the operation of the public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section 145 ("Section 145") of the Delaware General Corporation Law, as amended (the "DGCL"), permits indemnification of directors, officers, agents and controlling persons of a corporation under certain conditions and subject to certain limitations. Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer or agent of the corporation or another enterprise if serving at the request of the corporation. Depending on the character of the proceeding, a corporation may indemnify against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if the person indemnified acted in good faith and in a manner he or she reasonably believed to be in or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. In the case of an action by or in the right of the corporation, no indemnification may be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine that despite the adjudication of liability such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Section 145 further provides that to the extent a present or former director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to above or in the defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Our Amended and Restated Certificate of Incorporation, as amended (the "Charter"), provides that no current or former director of the Registrant shall be personally liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability: (a) for any breach of the director's duty of loyalty to the Registrant or its stockholders; (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) under Section 174 of the DGCL; or (d) for any transaction from which the director derived any improper personal benefit. The Registrant's Charter also authorizes the Registrant, to the fullest extent permitted by applicable law, to provide indemnification of, and advanced expenses to, the Registrant's agents and any other persons to which the DGCL permits.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

INDEX TO FINANCIAL STATEMENTS
CODA OCTOPUS GROUP, INC.

Coda Octopus Group, Inc.
Consolidated Financial Statements
October 31, 2006 and 2005

Contents	Page
Report of Independent Registered Certified Public Accounting Firm	F-2
Consolidated Balance Sheet	F-3
Consolidated Statements of Operations and Comprehensive Loss	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statement of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

Coda Octopus Group, Inc.
Consolidated Financial Statements
January 31, 2007 and 2006
(unaudited)

Consolidated Balance Sheet	F-17
Consolidated Statements of Operations and Comprehensive Loss	F-18
Consolidated Statements of Stockholders' Equity	F-19
Consolidated Statement of Cash Flows	F-20
Notes to Consolidated Financial Statements	F-21

Martech Systems (Weymouth) Limited
Financial Statements
October 31, 2005 and 2004

Officers and Advisors	F-32
Directors' Report	F-33
Independent Auditors' Report	F-34
Profit and Loss Account	F-35
Balance Sheet	F-36
Notes to the Financial Statements	F-37

Martech Systems (Weymouth) Limited
Management Accounts
April 30, 2005 and 2006
(unaudited)

Balance Sheet 30 April, 2005	F-39
Profit and Loss Report 30 April, 2005	F-40
Balance Sheet 30 April, 2006	F-41
Profit and Loss Report 30 April, 2006	F-42

Miller and Hilton, Inc.
Financial Statements
October 31, 2006 and 2005

Contents	F-43
Report of Independent Registered Certified Public Accounting Firm	F-44
Balance Sheets	F-45
Statements of Operations	F-46
Statements of Stockholders' Equity	F-47
Statements of Cash Flows	F-48
Notes to Financial Statements	F-49

Coda Octopus Group, Inc.
Pro Forma Financial Statements

October 31, 2006

Balance Sheet	F-58
Statement of Operations	F-59

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

/S/ Russell Bedford Stefanou Mirchandani LLP

Russell Bedford Stefanou Mirchandani LLP

New York, New York
March 13, 2007

CODA OCTOPUS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2006 and 2005

ASSETS	October 31, 2006	October 31, 2005
Current assets:		
Cash and cash equivalents	$ 1,377,972	$ 142,936
Accounts receivable, net of allowance for doubtful accounts	1,120,968	1,104,509
Inventory	1,951,392	1,044,051
Receivable on sale of preferred stock	-	2,655,000
Tax credit receivable	234,593	463,411
Due from MSGI Security Solutions, Inc. (Note 12)	533,147	-
Due from related parties	104,720	-
Other current assets	103,296	93,837
Prepaid expenses	159,969	216,846
Total current assets	5,586,057	5,720,590
Property and equipment, net (Note 2)	155,730	166,648
Rental equipment, net (Note 2)	120,851	66,910
Goodwill and other intangible assets, net (Note 3)	1,071,700	71,480
Total assets	$ 6,934,338	$ 6,025,628
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 1,997,817	$ 403,816
Accrued expenses and other current liabilities	2,542,918	1,412,159
Deferred payment related to acquisition of Martech Systems Ltd	381,680	-
Accrued dividends on Series A & B Preferred Stock	304,394	-
Due to related parties (Note 9)	302,877	576,981
Notes and Loans payable (Note 8)	1,119,496	3,029,015
Total current liabilities	6,649,182	5,421,971
Loans and notes payable, long term	-	114,990
Total liabilities	6,649,182	5,536,961
Stockholders' equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized, 23,641 and 15,000 shares Series A issued and outstanding, as of October 31st, 2006 and 2005 respectively (Note 4)	24	15
41,000 shares Series B issued and outstanding as of October 31, 2006 (Note 4)	41	-
Common stock, $.001 par value; 70,000,000 shares authorized, 24,301,980 and 23,667,656 shares issued and outstanding as of October 31, 2006 and 2005 respectively (Note 4)	24,302	23,668
Common Stock subscribed	153,750	-
Additional paid-in capital	25,858,307	13,837,534
Foreign currency translation adjustment	(292,821)	(10,117)
Accumulated deficit	(25,458,447)	(13,362,433)
Total stockholders' equity	285,156	488,667
Total liabilities and stockholders' equity	$ 6,934,338	$ 6,025,628

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, 2006 and 2005

	October 31, 2006	October 31, 2005
Net revenue	$ 7,291,291	$ 4,288,416
Cost of revenue	2,611,590	2,464,800
Gross profit	4,679,701	1,823,616
Research and development	3,130,821	1,044,695
Selling, general and administrative expenses	7,453,946	4,349,674
Non-recurring expenses	447,750	-
Operating loss	(6,352,816)	(3,570,753)
Other income (expense)		
Other income	3,012	1,319
Interest expense	(1,203,690)	(219,855)
Total other expense	(1,200,678)	(218,536)
Loss before income taxes	(7,553,494)	(3,789,289)
Provision for income taxes	5,676	17,766
Net loss	(7,559,170)	(3,807,055)
Preferred Stock Dividends:		
Series A	(309,914)	
Series B	(74,130)	
Beneficial Conversion Feature	(4,152,800)	-
Net Loss Applicable to Common Shares	$ (12,096,014)	$ (3,807,055)
Loss per share, basic and diluted	(0.50)	(0.16)
Weighted average shares outstanding	24,030,423	23,103,396
Comprehensive loss:		
Net loss	$ (7,559,170)	$ (3,807,055)
Foreign currency translation adjustment	(282,704)	341,390
Comprehensive loss	$ (7,841,874)	$ (3,465,665)

The accompanying notes 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, 2006

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Common Stock	Additional Paid-in	Foreign Currency Translation	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Subscribed	Capital	Adjustment	Deficit	Total
Balance, October 31, 2004	-	$ -			22,172,656	$22,173	-	$ 9,682,541	$ (351,507)	$ (9,555,378)	$ (202,171)
Sale of preferred stock	15,000	15						2,654,985			2,655,000
Sale of shares for cash					1,000,000	1,000		799,534			800,534
Shares issued for accrued compensation					495,000	495		49,005			49,500
Fair value of options and warrants issued as compensation								651,469			651,469
Foreign currency translation adjustment									341,390		341,390
Net loss										(3,807,055)	(3,807,055)
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											
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

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

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

	October 31, 2006	October 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (12,096,014)	$ (3,807,055)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	137,189	132,929
Stock based compensation	2,005,056	651,469
Financing costs	784,873	-
Beneficial conversion feature, preferred stock	4,152,800	-
Preferred stock dividends	384,044	-
Bad debt expense	16,008	37,766
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	491,922	(234,725)
Inventory	(482,882)	447,203
Prepaid expenses	89,953	(45,859)
Other receivables	2,260,315	(567,950)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,855,467	(356,046)
Due to related parties	523,076	172,344
Net cash (used)/generated by operating activities	121,807	(3,569,924)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(138,172)	(272,157)
Purchases of intangible assets	(6,543)	-
Acquisition of Martech Systems Ltd	(1,154,590)	-
Cash acquired from Martech Systems Ltd	195,684	-
Net cash used by investing activities	(1,103,621)	(272,157)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from/(repayment of) loans	(2,106,342)	2,898,126
Proceeds from sale of stock	4,564,100	800,534
Preferred stock dividend	(79,650)	-
Net cash provided by financing activities	2,378,108	3,698,660
Effect of exchange rate changes on cash	(161,258)	244,503
Net increase in cash	1,235,036	101,082
Cash and cash equivalents, beginning of year	142,936	41,854
Cash and cash equivalents, end of year	$ 1,377,972	$ 142,936
Cash paid for:		
Interest	$ 418,817	$ 144,185
Income taxes	-	-

Supplemental Disclosures:

During the year ended October 31, 2006, 634,324 shares of common stock were issued as payment of $317,162 of compensation that was earned for the year to October 31, 2006. In addition,

During the year ended October 31, 2006 5,694 shares of series A preferred stock were issued as payment for $809,628 of debt outstanding.

During the year ended October 31, 2005, 495,000 shares of common stock October 31, 2004.

Acquisition of Martech:	
Current assets acquired	798,133
Cash acquired	195,684
Equipment acquired	37,126
Goodwill	998,591
Liabilities assumed	(493,264)
Deferred note payable	(381,680)
Cash Paid for Acquisition	1,154,590
Exchange rate movements	25,535
Total Paid for Acquisition	1,180,125

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 and Washington, D.C.

Effective July 12, 2004, Panda acquired all of the issued and outstanding common stock of Coda Octopus Ltd, ("COL") 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 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 EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). 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 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

Foreign Currency Translation

Coda translates the foreign currency financial statements of its foreign subsidiaries in accordance with the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". Assets and liabilities are translated at current exchange rates, and related revenue and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. 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 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 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. We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was $79,177 and $74,447 for the years ended October 31, 2006 and 2005 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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, 2006 and 2005:

	2006	2005
Raw materials	**$ 1,064,655**	**$ 645,146**
Work in process	**389,042**	**73,497**
Finished goods	**497,695**	**325,408**
	$ 1,951,392	**$ 1,044,051**

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, 2006 and 2005**.**

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. During the year ended October 31, 2006, we recorded no tax credits. We recorded approximately $675,000 of tax credits during the year ended October 31, 2005.

Advertising

We charge the costs of advertising to expense as incurred. For the years ended October 31, 2006 and 2005, advertising costs were $275,285 and $234,768, respectively.

Stock Based Compensation

Stock Based Compensation — SFAS No. 123, “Accounting for Stock-Based Compensation”, establishes and encourages 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 permits 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. We use the fair value method for equity instruments granted to employees and 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS 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 $0.50 and $0.16 for the years ended October 31, 2006 and 2005, respectively. For the years ended October 31, 2006 and 2005, 21,638,728 and 5,005,000 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, 2006 we have cash and cash equivalents of $1,377,972 and negative working capital of $1,063,125. For the year ended October 31, 2006 we had a net loss of $7,559,170 and positive cash flow from operations of $121,807. We also have an accumulated deficit of $25,458,447 at October 31, 2006.

NOTE 2 - FIXED ASSETS

Property and equipment at October 31, 2006 and 2005 is summarized as follows:

	2006	2005
Machinery and Equipment	**$ 819,936**	**$ 611,477**
Accumulated Depreciation	**(664,206)**	**(418,065)**
	$ 155,730	**$ 193,412**

Depreciation expense recorded in the statement of operations for the years ended October 31, 2006 and 2005 is $52,396 and $86,749, respectively.

Rental equipment at October 31, 2006 and 2005 is summarized as follows:

	2006	2005
Rental Equipment	**$ 240,876**	**80,292**
Accumulated Depreciation	**(120,025)**	**(40,146)**
	$ 120,851	**$ 40,146**

Depreciation expense recorded in the statement of operations for the years ended October 31, 2006 and 2005 is $79,879 and $40,146, respectively.

NOTE 3 - INTANGIBLE ASSETS

The costs and accumulated amortization of intangible assets at October 31, 2006 and 2005 are summarized as follows:

	2006	2005
Goodwill	**$ 1,060,906**	**$ 62,315**
Patents	**30,055**	**23,512**
	1,090,961	**85,827**
Accumulated amortization of patents	**19,261**	**14,347**
	$ 1,071,700	**$ 71,480**

Amortization of patents included as a charge to income amounted to $4,914 and $6,034 for the years ended October 31, 2006 and 2005, respectively. Goodwill is not being amortized.

NOTE 4 - CAPITAL STOCK

The Company is authorized to issue 70,000,000 shares of common stock with a par value of $.001 per share. As of October 31, 2006, the Company has issued and outstanding 24,301,980 shares of common stock. 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 64,641 preferred shares outstanding at October 31, 2006 of which 23,641 shares were Series A and 41,000 shares were Series B.

During the year ended October 31, 2006 we issued 634,324 shares of common stock, valued at $317,160 to employees, directors and consultants for services.

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.

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 (see Notes 8 and 9). 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 were 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. During the year ended October 31, 2005 we sold 15,000 shares of preferred stock for proceeds of $2,655,000.

During the year ended October 31, 2006 we recorded $309,914 of dividends on the Series A preferred stock, of which $79,650 was paid during the year (by advances from our principal stockholder), with the balance of $230,264 accrued at October 31, 2006.

NOTE 4 - CAPITAL STOCK (CONTINUED)

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 is convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share.

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 Emerging Issues Task Force ("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.

During the year ended October 31, 2006 we accrued $74,130 of dividends on the Series B preferred stock, none of which was paid during the year.

Other Equity Transactions

During the year ended October 31, 2006 we issued 1,545,000 warrants for financial and other services. Of these warrants, 400,000 have an exercise price of $0.58, 750,000 have an exercise price of $0.50, 37,500 have an exercise price of $1.00, 160,000 have an exercise price of $1.30, 37,500 have an exercise price of $1.50 and 160,000 have an exercise of $1.70. All of these awards vested immediately. We have recorded an expense related to the fair value of these warrants at the date of grant of $690,847, determined using the Black Scholes method based on the following assumption ranges: (1) risk free interest rate of 4.6% to 4.9%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 328% to 440%; and (4) an expected life of the options of 2 years.

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, 616,000 vested immediately and the balance vests over various periods through July, 2008. The initial fair value of the options was $835,438 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 year ended October 31, 2006 $672,361 was charged to expense.

NOTE 4 - CAPITAL STOCK (CONTINUED)

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 $1,221,497 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 ended October 31, 2006 and 2005 $396,372 and $651,469, respectively, was charged to expense.

NOTE 5 - WARRANTS AND STOCK OPTIONS

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

	2006		2005	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of period	2,350,000	$ 1.00	—	$ —
Granted during the period	11,060,000	1.35	2,350,000	1.00
Exercised during the period	—	—	—	—
Terminated during the period	—	—	—	1.00
Outstanding at end of the period	13,410,000	$ 1.29	2,350,000	$ 1.00
Exercisable at end of the period	12,084,000	$ 1.31	888,500	$ 1.00

The number and weighted average exercise prices of stock purchase options and warrants outstanding as of October 31, 2006 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Weighted Average Exercise Price
0.50 - 0.58	1,150,000	4.47	$ 0.53
1.00	3,492,500	3.76	$ 1.00
1.30	4,260,000	4.77	1.30
1.50	247,500	4.65	1.50
1.70	4,260,000	4.77	1.70

NOTE 6 - 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 $7,145,000 which expire through 2026, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $2,429,000. 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 $8,873,000, with no expiration. The deferred tax asset related to the carryforward is approximately $2,662,000. 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 2006 represents income taxes on our Norwegian and British subsidiary.

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

Non-Current:	**Oct 31, 2006**	**Oct 31, 2005**
Net Operating Loss Carry Forward	**$ 2,429,000**	**$ 2,909,000**
Valuation Allowance	**(2,429,000)**	**(2,909,000)**
Net Deferred Tax Asset	**$ -**	**$ -**

NOTE 7 - CONTINGENCIES AND COMMITMENTS

Litigation

We may become subject to legal proceedings and claims, which arise in the ordinary course of its 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 factoring agreement. Advances received pursuant to the agreement are secured by our accounts receivable.

This factoring agreement was entered into on August 17, 2005 with Faunus Group International, Inc. (“FGI”) for a maximum borrowing of up to $1 million. Over the course of the year, we factored invoices totaling $5,503,518 in receivables and we received $5,172,774 in proceeds from FGI. This compares with 2005, where, between the date of signing and the year end, we factored invoices totaling $791,016 in receivables and we received $571,376 in proceeds from FGI.

NOTE 7 - CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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 2011. Future minimum lease obligations are approximately $797,092.

Concentrations

During the year ended October 31, 2006, we had no concentrations of sales or purchases of over 5%, compared with 2005 where we purchased approximately 11% of our raw materials from one supplier.

NOTE 8 - NOTES AND LOANS PAYABLE

At October 31, 2006 we had an outstanding balance under our UK bank revolving credit facility of $1,119,496. The advances bear interest at 2.0% over UK Bank Base Rate and are due on demand. The advances are secured by a bond and a security interest in the assets of our subsidiary, Coda Octopus Ltd, exclusive of accounts receivable.

At October 31, 2005 we had an outstanding liability to a Norwegian bank in the amount of $184,755. The loan bore interest at 10% and matured on November 22, 2005

During the year to October 31, 2005 we had received loans from other parties, which were unsecured, bore interest at the rate of 12% per year, and were payable 24 months after a demand for repayment was received. These loans totaled $134,335, including accrued interest, when they were converted into preferred stock during the year ended October 31, 2006.

NOTE 9 - DUE TO RELATED PARTIES

We are indebted to various related parties for advances for payments of operating expenses and dividends. These related parties include our parent and other entities controlled by our parent. Advances are non interest bearing and are due on demand. During the year ended October 31, 2005, approximately $432,000 of the $577,000 outstanding balance at October 31, 2005 was converted into shares of our Series A Preferred Stock, leaving an outstanding balance at October 31, 2006 of $302,877.

Part of this balance, a sum of $95,420, is owed to Jason Reid, President and CEO, by one of the Group's subsidiaries, Coda Octopus Ltd. Mr. Reid also owes a balance of $104,720 to Coda Octopus Group, Inc., leaving a net balance owed to the Group of $9,300.

NOTE 10 - ACQUISITION

On June 26, 2006, we acquired all of the issued and outstanding capital stock of Martech Systems (Weymouth) Limited, a UK company. This company specializes in engineering projects and sales to the UK Ministry of Defense, adding these capabilities to the Group. 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 is accrued as $382,000 as at October 31, 2006, due to exchange rate movements. Approximately $286,000 in common stock could become due on October 31, 2007, though this dependent upon the performance of Martech, and is in no way guaranteed. The result of operations of Martech have been included in the consolidated financial statements from the date of acquisition. The purchase price was allocated as follows:

NOTE 10 - ACQUISITION (CONTINUED)

Current assets	**$**	**993,817**
Equipment		**37,126**
Goodwill		**998,591**
Current liabilities		**(493,262)**
Purchase price	**$**	**1,536,271**

The following unaudited pro forma results of operations for the years ended October 31, 2006 and 2005 assume that the acquisition of Martech occurred on November 1, 2004. 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.

	Oct 31, 2006	Oct 31, 2005
Revenue	$ 8,656,396	$ 6,448,291
Net loss	(7,536,584)	(3,646,510)
Loss per common share	(0.50)	(0.16)

NOTE 11 - SEGMENT INFORMATION

Since the acquisition of Martech on June 26, 2006, we are operating in two reportable segments. Martech operates as an engineering contractor, and the balance of our operations are comprised of product sales. Segment information is as follows:

	Contracting	Product Sales	Corporate	Oct 31, 2006
Revenue	$ 661,589	$ 6,629,702	-	$ 7,291,291
Segment operating profit/(loss)	(120,532)	245,858	(6,478,142)	(6,352,816)
Identifiable assets	1,899,209	2,987,334	2,047,795	6,934,338
Capital expenditure	2,340	111,734	22,165	136,239
Selling, general & administrative	366,732	3,331,112	4,203,852	6,535,430
Depreciation and amortization	12,037	123,844	1,307	137,188
Interest expense	1,680	406,638	795,372	1,203,690

NOTE 12 - SUBSEQUENT EVENTS

In November 2006, we entered into new agreements with our factor, with each of our corporate entities covered by its own agreement. The new agreements are secured by substantially all of our assets.

On January 31, 2007, we sold a further 8,000 preferred 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 $800,000.

We issued 453,180 shares of common stock as compensation to employees, directors and consultants, for services.

We granted 125,000 common stock options to employees, directors and consultants for services.

During the year to October 31, 2006, we advanced a sum of $533,147 to MSGI Security Solutions, Inc. (OTC: MSGI.PK). This sum was repaid on March 6, 2007 through the issuance of 850,000 common shares in MSGI (approximate value on issuance of $697,000) and 425,000 warrants to purchase common shares with an exercise price of $1. A license was also granted on March 6, 2007 to utilize MSGI's wireless video encryption capabilities within the company and its products.

CODA OCTOPUS GROUP, INC.
CONSOLIDATED BALANCE SHEET
JANUARY 31, 2007 and 2006
(UNAUDITED)

	January 31, 2007	January 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,802	$ 46,010
Accounts receivable, net of allowance for doubtful accounts	1,066,672	1,696,539
Inventory	2,345,010	1,204,454
Tax credit receivable	-	466,843
Due from MSGI Security Solutions, Inc.	533,147	-
Due from related parties	144,134	99,585
Other current assets	479,973	112,375
Prepaid expenses	197,189	66,593
Total current assets	4,788,928	3,692,399
Property and equipment, net	143,308	212,749
Rental equipment, net	102,330	-
Goodwill and other intangible assets, net	1,071,201	74,444
Total assets	$ 6,105,767	$ 3,979,592
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 2,623,987	$ 1,460,172
Accrued expenses and other current liabilities	1,569,601	1,344,060
Deferred payment related to acquisition of Martech Systems Ltd	392,220	-
Accrued dividends on Series A & B Preferred Stock	241,023	-
Due to related parties	328,690	576,981
Loans payable	802,253	954,977
Total current liabilities	5,957,774	4,336,190
Loans and notes payable, long term	-	112,229
Total liabilities	5,957,774	4,448,419
Stockholders' equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized, 23,641 and 15,000 shares Series A issued and outstanding, as of January 31st, 2007 and 2006 respectively	24	15
49,000 shares and 0 Series B issued and outstanding as of January 31, 2007 and 2006 respectively	49	-
Common stock, $.001 par value; 70,000,000 shares authorized, 26,312,980 and 23,667,656 shares issued and outstanding as of January 31, 2007 and 2006 respectively	26,313	23,668
Common Stock subscribed	-	-
Additional paid-in capital	29,239,252	13,985,227
Foreign currency translation adjustment	(328,280)	26,274
Accumulated deficit	(28,789,365)	(14,504,012)

Total stockholders' equity	147,993	(468,828)
Total liabilities and stockholders' equity	$ 6,105,767	$ 3,979,591

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

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED JANUARY 31, 2007 and 2006
(UNAUDITED)

	January 31, 2007	January 31, 2006
Net revenue	$ 2,701,275	$ 975,581
Cost of revenue	941,029	357,873
Gross profit	1,760,246	617,708
Research and development	518,393	532,128
Selling, general and administrative expenses	3,224,659	1,108,106
Non-recurring expenses	435,000	-
Operating income	(2,417,806)	(1,022,526)
Other income (expense)		
Other income	2,098	615
Interest expense	(115,211)	(57,100)
Total other income (expense)	(113,113)	(56,485)
Loss before income taxes	(2,530,919)	(1,079,011)
Provision for income taxes	-	-
Net loss	(2,530,919)	(1,079,011)
Preferred Stock Dividends:		
Series A	-	
Series B	-	
Beneficial Conversion Feature	(800,000)	-
Net Loss Applicable to Common Shares	$ (3,330,919)	$ (1,079,011)
Loss per share, basic and diluted	(0.13)	(0.05)
Weighted average shares outstanding	25,526,067	23,667,656
Comprehensive loss:		
Net loss	$ (2,530,919)	$ (1,079,011)
Foreign currency translation adjustment	(328,280)	(62,569)
Comprehensive loss	$ (2,859,199)	$ (1,141,580)

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

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JANUARY 31, 2007 and 2006
(UNAUDITED)

Three Months Ended January 31, 2006	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Common Stock	Additional Paid-in	Foreign Currency Translation	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Subscribed	Capital	Adjustment	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 shares for cash	-	-	-	-	-	-	-	-	-	-	-
Shares issued for compensation	-	-	-	-	-	-	-	-	-	-	-
Common stock subscribed	-	-	-	-	-	-	-	-	-	-	-
Fair value of options and warrants issued as compensation and for financing	-	-	-	-	-	-	-	147,693	-	-	147,693
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	36,391	-	36,391
Net loss	-	-	-	-	-	-	-	-	-	(1,141,580)	(1,141,580)
Balance, January 31, 2006	15,000	$ 15	-	$ -	23,667,656	$ 23,668	$ -	$ 13,985,227	$ 26,274	$ (14,504,013)	$ (468,829)

Three Months Ended January 31, 2007	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Common Stock	Additional Paid-in	Foreign Currency Translation	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Subscribed	Capital	Adjustment	Deficit	Total
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	-	-	-	799,992	-	-	800,000
Sale of shares for cash	-	-	-	-	650,000	650	-	-	-	-	650
Shares issued for compensation	-	-	-	-	1,361,000	1,361	-	1,422,659	-	-	1,424,020
		-									
Common stock subscribed	-		-	-	-	-	(153,750)	153,750	-	-	-
Fair value of options and warrants issued as compensation and for financing	-	-	-	-	-	-	-	205,194	-	-	205,194
Beneficial conversion feature of preferred stock, Series A	-	-	-	-	-	-	-	-	-	-	-
preferred stock, Series B		-	-	-	-	-	-	799,350	-	(800,000)	(650)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(35,459)	-	(35,459)
Net loss	-	-	-	-	-	-	-	-	-	(2,530,919)	(2,530,919)
	23,641	$ 24	49,000	$ 49	26,312,980	$ 26,313	$ -	$ 29,239,252	$ (328,280)	$ (28,789,366)	$ 147,992

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

CODA OCTOPUS GROUP, INC.
STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED JANUARY 31, 2007 and 2006
(UNAUDITED)

	January 31, 2007	January 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,330,919)	$ (1,079,011)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	68,282	34,768
Stock based compensation	1,594,694	147,693
Financing costs	-	-
Beneficial conversion feature, preferred stock	800,000	-
Preferred stock dividends	-	-
Bad debt expense	-	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	54,296	(592,030)
Inventory	(393,618)	(160,403)
Prepaid expenses	(37,220)	150,253
Other receivables	(181,498)	(121,555)
Increase (decrease) in:		
Accounts payable and accrued expenses	(336,607)	988,257
Due to related parties	102,562	-
Net cash used by operating activities	(1,660,028)	(632,028)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36,840)	(13,959)
Purchases of intangible assets	-	(2,964)
Acquisition of Martech Systems Ltd	-	-
Cash acquired from Martech Systems Ltd	-	-
Net cash used by investing activities	(36,840)	(16,923)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from/(repayment of) loans	(317,243)	(2,076,799)
Proceeds from sale of stock	800,000	2,655,000
Preferred stock dividend	(63,371)	-
Net cash provided by financing activities	419,386	578,201
Effect of exchange rate changes on cash	(77,688)	(26,177)
Net (decrease) increase in cash	(1,355,170)	(96,927)
Cash and cash equivalents, beginning of year	1,377,972	142,936
Cash and cash equivalents, end of year	$ 22,802	$ 46,009
Cash paid for:		
Interest	$ 115,211	$ 57,100
Income taxes	-	-

Supplemental Disclosures:

During the three months to January 31, 2007, 1,361,000 shares of common stock were issued as payment of $1,424,020 of compensation that was earned.

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited 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 and Washington, D.C.

Effective July 12, 2004, Panda acquired all of the issued and outstanding common stock of Coda Octopus Ltd, ("COL") 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 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 unaudited 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 EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). 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 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

Foreign Currency Translation

Coda translates the foreign currency financial statements of its foreign subsidiaries in accordance with the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". Assets and liabilities are translated at current exchange rates, and related revenue and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. 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 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 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. We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was nil and ($9,573) for the periods ended January 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 January 31, 2007 and 2006:

	2007	2006
Raw materials	**$ 634,957**	**$ 667,198**
Work in process	**805,867**	**154,384**
Finished goods	**904,186**	**382,872**
	$ 2,345,010	**$ 1,204,454**

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 periods ended January 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 either quarter.

Marketing

We charge the costs of marketing to expense as incurred. For the periods ended January 31, 2007 and 2006, marketing costs were $50,295 and $67,977, respectively.

Stock Based Compensation

Stock Based Compensation — SFAS No. 123, “Accounting for Stock-Based Compensation”, establishes and encourages 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 permits 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. We use the fair value method for equity instruments granted to employees and 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS 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 $0.13 and $0.05 for the periods ended January 31, 2007 and 2006, respectively. For the periods ended January 31, 2007 and 2006, 24,088,728 and 5,310,000 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 January 31, 2007 we have cash and cash equivalents of $22,802 and negative working capital of $1,168,846. For the period ended January 31, 2007 we had a net loss of $2,530,919 and negative cash flow from operations of $1,660,028. We also have an accumulated deficit of $28,789,365 at January 31, 2007.

NOTE 2 - FIXED ASSETS

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

	2007	2006
Machinery and Equipment	**$ 852,668**	**$ 704,638**
Accumulated Depreciation	**(709,360)**	**(491,890)**
	$ 143,308	**$ 212,748**

Depreciation expense recorded in the statement of operations for the periods ended January 31, 2007 and 2006 is $19,071 and $14,055, respectively.

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

	2007	2006
Rental Equipment	**$ 245,592**	**0**
Accumulated Depreciation	**(143,262)**	**0**
	$ 102,330	**$ 0**

Depreciation expense recorded in the statement of operations for the periods ended January 31, 2007 and 2006 is $22,406 and nil respectively.

NOTE 3 - INTANGIBLE ASSETS

The costs and accumulated amortization of intangible assets at January 31, 2007 and 2006 are summarized as follows:

	2007	2006
Goodwill	**$ 1,060,906**	**$ 62,315**
Patents	**30,055**	**26,475**
	1,090,961	**88,790**
Accumulated amortization of patents	**19,761**	**14,347**
	$ 1,071,200	**$ 74,343**

Amortization of patents included as a charge to income amounted to $500 and nil for the periods ended January 31, 2007 and 2006, respectively. Goodwill is not being amortized.

NOTE 4 - 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 January 31, 2007, the Company has issued and outstanding 26,312,980 shares of common stock. 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 72,641 preferred shares outstanding at January 31, 2007, of which 23,641 shares were Series A and 49,000 shares were Series B.

During the period ended January 31, 2007 we issued 1,361,000 shares of common stock, valued at $1,424,020 to employees, directors and consultants for services and 650,000 shares of common stock to an investor.

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.

During the period ended January 31, 2007 we did not issue any further Series A Preferred Stock. At January 31, 2007, the total of Series A Preferred Stock outstanding is 23,641 shares, convertible into 3,928,728 shares of common stock. During the period ended January 31, 2006 we did not sell any of our preferred 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 is convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share.

During the period that ended January 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 proceeds from the sale of the units were $800,000.

NOTE 4 - CAPITAL STOCK (CONTINUED)

In accordance with Emerging Issues Task Force ("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 $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.

Other Equity Transactions

During the period ended January 31, 2007, we issued in the aggregate 125,000 common share purchase options to employees and consultants. The options were issued with exercise prices of $1.50 The initial fair value of the options was $168,271 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%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 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.

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, 616,000 vested immediately and the balance vests over various periods through July, 2008. The initial fair value of the options was $835,438 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 period ended January 31, 2007, $36,923 was 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 $1,221,497 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 periods ending January 31, 2007 and 2006, nil and $147,692, respectively, was charged to expense.

NOTE 5 - 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 period	13,410,000	$ 1.29	2,350,000	$ 1.00
Granted during the period	1,725,000	1.50	305,000	1.00
Exercised during the period	—	—	—	—
Terminated during the period	90,000	1.00	—	1.00
Outstanding at end of the period	15,045,000	$ 1.31	2,655,000	$ 1.00
Exercisable at end of the period	13,913,500	$ 1.33	1,079,500	$ 1.00

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

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Weighted Average Exercise Price
0.50 - 0.58	1,150,000	4.22	$ 0.53
1.00	3,440,000	3.45	1.00
1.30	5,060,000	4.60	1.30
1.50	335,000	4.15	1.50
1.70	5,060,000	4.60	1.70

NOTE 6 - 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 $9,413,000 which expire through 2026, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $3,200,000. 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 $8,963,000, with no expiration. The deferred tax asset related to the carryforward is approximately $2,689,000. 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.

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

Non-Current:	**Jan 31, 2007**	**Jan 31, 2006**
Net Operating Loss Carry Forward	**$ 3,200,000**	**$ 3,018,000**
Valuation Allowance	**(3,200,000)**	**(3,018,000)**
Net Deferred Tax Asset	**$ -**	**$ -**

NOTE 7 - CONTINGENCIES AND COMMITMENTS

Litigation

We may become subject to legal proceedings and claims, which arise in the ordinary course of its 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 factoring agreement. Advances received pursuant to the agreement are secured by our accounts receivable.

This factoring agreement was entered into on August 17, 2005 with Faunus Group International, Inc. (“FGI”) for a maximum borrowing of up to $1 million. Over the course of the period, we factored invoices totaling $1,492,755.74 in receivables and we received $904,241.51 in proceeds from FGI. This compares with the 2006 period, where, we factored invoices totaling $748,601.16 in receivables and we received $1,085,969.57 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.

NOTE 7 - CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 $1,133,638.

Concentrations

We had no concentrations of sales or purchases of over 5% during either of the periods ended 2007 and 2006.

NOTE 8 - NOTES AND LOANS PAYABLE

At January 31, 2007 we had an outstanding balance under our UK bank revolving credit facility of $802,253. The advances bear interest at 2.0% over UK Bank Base Rate and are due on demand. The advances are secured by a bond and a security interest in the assets of our subsidiary, Coda Octopus Products Ltd, exclusive of accounts receivable.

NOTE 9 - DUE TO RELATED PARTIES

We are indebted to various related parties for advances for payments of operating expenses and dividends. These related parties include our parent and other entities controlled by our parent. Advances are non interest bearing and are due on demand. At the end of the period ending January 31, 2007, $328,690 was due to related parties. Part of this balance, a sum of $98,055, is owed to Jason Reid, President and CEO, by one of the Group's subsidiaries, Coda Octopus Products, Ltd. Mr. Reid also owes a balance of $130,133 to Coda Octopus Group, Inc., leaving a net balance owed to the Group of $32,078.

NOTE 10 - SEGMENT INFORMATION

Since the acquisition of Martech on June 26, 2006, we are operating in two reportable segments. Martech operates as an engineering contractor, and the balance of our operations are comprised of product sales. Segment information is as follows:

	Contracting	Product Sales	Corporate	Jan 31, 2007
Revenue	$ 1,171,434	$ 1,529,841	-	$ 2,701,275
Segment operating profit/(loss)	188,738	(411,050)	(2,195,493)	(2,417,805)
Identifiable assets	2,011,073	3,513,109	581,585	6,105,767
Capital expenditure	25,933	100,555	21,899	148,387
Selling, general & administrative	630,191	917,890	1,676,578	3,224,659
Depreciation and amortization	7,938	59,768	576	68,282
Interest expense	17,870	93,544	3,797	115,211

NOTE 11 - SUBSEQUENT EVENTS

We issued 161,180 shares of common stock as compensation to employees, directors and consultants, for services.

NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)

During the year to October 31, 2006, we advanced a sum of $533,147 to MSGI Security Solutions, Inc. (OTC: MSGI.PK). This sum was repaid in May 2007 through the issuance of 850,000 common shares in MSGI (approximate value on issuance of $697,000) and 425,000 warrants to purchase common shares with an exercise price of $1. A license was also granted in May 2007 to utilize MSGI's wireless video encryption capabilities within the company and its products.

In April/May 2007, we sold 15,000,000 units comprising of one share of common stock, 5 year warrants to purchase 15,000,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70 priced at $1 for the unit, for a total consideration of $15,000,000.

In April 2007, we acquired a company, Colmek Systems Engineering, an engineering contractor in the defense industry. We paid a sum of $800,000 and 532,090 shares at closing with a deferred amount of $700,000 due 12 months after closing.

In March 2007, we converted 48,054 shares of our Series A and B Preferred Stock into 2,878,418 shares of common stock, 1,439,209 warrants exercisable at a $1.30 with 1,439,209 exercisable at $1.70.

In April 2007, we repurchased from Vision Opportunity Master Fund 18,181 shares of our Series B Preferred Stock at a price of $110 per share for a total repurchase price of 19,999,910. This was financed from the proceeds realized from the private placement concluded in April/May.

MARTECH SYSTEMS (WEYMOUTH) LIMITED

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REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 OCTOBER 2005

****

COYNE, BUTTERWORTH & CHALMERS
CHARTERED ACCOUNTANTS

LUPINS BUSINESS CENTRE
1-3 GREENHILL
WEYMOUTH
DORSET DT4 7SP

MARTECH SYSTEMS (WEYMOUTH) LIMITED

OFFICERS AND ADVISERS

DIRECTORS	B G BROOKES C R PEGRUM L L SHORT
SECRETARY	C R PEGRUM
REGISTERED OFFICE	14 ALBANY ROAD GRANBY INDUSTRIAL ESTATE WEYMOUTH DORSET DT4 9TH
REGISTERED NUMBER	2300406 (ENGLAND AND WALES)
BANKERS	NATIONAL WESTMINSTER BANK PLC 76 ST THOMAS STREET WEYMOUTH DORSET
AUDITORS	COYNE, BUTTERWORTH & CHALMERS CHARTERED ACCOUNTANTS WEYMOUTH AND DORCHESTER

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 October 2005.

ACTIVITIES
The principal activity of the company is that of electronic and electrical designers and engineers.

DIRECTORS
The directors who served during the year and their interests in the share capital of the company were as follows:

	2005	2004
"A" Ordinary shares		
Mr C R Pegrum	2500	2500
"B" Ordinary shares		
Mr B G Brookes	2500	2500
"C" Ordinary shares		
Mr L L Short	2500	2500
"D" Ordinary shares		
Mr L L Short	2500	2500
"E" Ordinary shares		
Mr B G Brookes	2500	2500
"F" Ordinary shares		
Mr C R Pegrum	2500	2500

DIRECTORS' RESPONSIBILITIES
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financials, the directors are required to:

Select suitable accounting policies and then apply them consistently;
Make judgments and estimates that are reasonable and prudent;
Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to small companies.

C R PEGRUM

22 March 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MARTECH SYSTEMS (WEYMOUTH) LIMITED

We have audited the financial statements of Martech Systems (Weymouth) Limited for the year ended 31 October 2005, which comprise the Profit and Loss Account, Balance Sheet and the related notes.

These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company'smembers those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As described in the statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 October 2005 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Weymouth
5 December 2006

COYNE, BUTTERWORTH & CHALMERS
Registered Auditors
Chartered Accountants

MARTECH SYSTEMS (WEYMOUTH) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 2005

	Note	2005 £	£	2004 £	£
TURNOVER					
Fees			1170220		1898763
COST OF SALES					
Purchases		111245		274015	
Consultancy		191324		563222	
Production staff		426825		529686	
			729394		1366923
GROSS PROFIT			440826		531840
ADMINISTRATIVE EXPENSES					
Directors remuneration	2	115914		119221	
Staff salaries		47050		63600	
Rent		28360		26947	
Business rates		6847		6856	
Light heat and power		2614		2087	
Water and effluent		458		467	
Insurance		11276		12011	
Repairs and renewals		7209		5870	
Postage and stationery		6692		6402	
Telephone and facsimile		2702		3180	
Computer consumables		6210		5360	
Travel and subsistence		8122		9694	
Advertising		152		418	
Entertaining		1564		3296	
Legal fees		200		2390	
Accountancy fees		8920		5450	
Other professional fees		17926		40036	
Equipment hire		87		346	
Bank charges		1580		1918	
Cleaning and laundry		2558		2489	
Staff amenities		1323		1097	
Staff training		5807		3559	
Sundry		1517		598	
Lease amortisation	3	383		383	
Depreciation	3	11559		20911	
			297030		344586
OPERATING PROFIT carried forward			143796		187254
OPERATING PROFIT brought forward			143796		187254
INTEREST RECEIVABLE AND SIMILAR INCOME					
Corporation tax		-		14	
Bank		3892		3603	
Overdrawn loan accounts		-		48	
			3892		3665
PROFIT ON ORDINARY ACTIVITIES					

BEFORE TAXATION	147688	190919
TAX ON PROFIT ON ORDINARY ACTIVITIES		
Corporation tax	29405	43852
PROFIT FOR FINANCIAL YEAR	118283	147067
Brought forward	286069	270724
DISTRIBUTABLE PROFIT	404352	417791
Dividends	31300	131722
Carried forward	373052	286069

The company has no recognized gains or losses other than the profit or loss for the above two financial years.

A separate statement of the movement of shareholders funds is not provided as there are no changes for the current or previous year other than those shown in the profit and loss account.

MARTECH SYSTEMS (WEYMOUTH) LIMITED

BALANCE SHEET AS AT 31 OCTOBER 2005

	Note	2005 £	2005 £	2004 £	2004 £
FIXED ASSETS					
Tangible assets	3		24646		30489
CURRENT ASSETS					
Work in progress		50753		37374	
Debtors	4	220313		402638	
Cash at bank and in hand	5	224156		142383	
		495222		582395	
CREDITORS: Amounts falling due within one year					
Directors		18372		50238	
Other creditors	6	113444		261577	
		131816		311815	
NET CURRENT ASSETS			363406		270580
TOTAL ASSETS LESS LIABILITIES			388052		301069
CAPITAL AND RESERVES					
Called up share capital	7		15000		15000
Profit and loss account			373052		286069
SHAREHOLDERS FUNDS			388052		301069

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the board of directors on 22 March 2006.

B G BROOKES

L L SHORT

C R PEGRUM

1. ACCOUNTING POLICIES

Accounting convention
The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Tangible assets
Depreciation is provided on assets so as to write off their cost during the expected useful life of the asset.
The rates of depreciation are as follows:

Leasehold improvements	Over the term of the lease
Equipment	15% of written down value
Computer equipment	3 years straight line

Work in progress
Work in progress is stated at the lower of cost and net realisable value. Cost represents materials, direct labour and where appropriate, production overheads.

Leasing
Rental costs under operating leases are charged to the Profit and Loss Account as incurred.

Turnover
Turnover represents amounts derived from the provision of goods and services falling within the company's ordinary activities, net of value added tax and discounts.

Pensions
The company operates a defined contribution scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

2. DIRECTORS REMUNERATION

	2005 £	2004 £
Salary	69143	69143
Social security costs	6971	7028
Other pension costs	39800	43050
	115914	119221

3. TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Equipment £	Total £
Cost:			
Brought forward	5641	128477	134118
Additions	-	6099	6099
Carried forward	5641	134576	140217
Depreciation:			
Brought forward	2193	101436	103629
Provision	383	11559	11942
Carried forward	2576	112995	115571
Net book value	3065	21581	24646

4. DEBTORS:	**2005 £**	**2004 £**
Amounts due within one year		
Trade debtors	216784	398914
Other	1385	1257
Prepayments	2144	2467
	220313	402638

5. CASH AT BANK AND IN HAND		
Business reserve	214385	56574
Current account	9655	85729
Cash in hand	116	80
	224156	142383

6. OTHER CREDITORS:		
Amounts falling due within one year		
Corporation tax	29405	43852
Other taxation and social security	59405	85682
Trade creditors	11652	68744
Accruals	12982	63299
	113444	261577

7. SHARE CAPITAL:	**2005 £**	**2004 £**
Authorised		
1000000 Ordinary "A" shares of £1 each	1000000	1000000
1000000 Ordinary "B" shares of £1 each	1000000	1000000
1000000 Ordinary "C" shares of £1 each	1000000	1000000
1000000 Ordinary "D" shares of £1 each	1000000	1000000
1000000 Ordinary "E" shares of £1 each	1000000	1000000
1000000 Ordinary "F" shares of £1 each	1000000	1000000
1000000 Redeemable Non Preferred Equity shares of £1 each	1000000	1000000
1000000 Redeemable Non Preferred Voting shares of £1 each	1000000	1000000
1000000 Redeemable Non Preferred Non Voting shares of £1 each	1000000	1000000
1000000 Redeemable Preference shares of £1 each	1000000	1000000
1000000 Convertible Deferred shares of £1 each	1000000	1000000
1000000 Deferred Founder shares of £1 each	1000000	1000000

	12000000	12000000
Called up, allotted and fully paid		
2500 Ordinary "A" shares of £1 each	2500	2500
2500 Ordinary "B" shares of £1 each	2500	2500
2500 Ordinary "C" shares of £1 each	2500	2500
2500 Ordinary "D" shares of £1 each	2500	2500
2500 Ordinary "E" shares of £1 each	2500	2500
2500 Ordinary "F" shares of £1 each	2500	2500
	15000	15000

8. LEASING COMMITMENTS

At the year end the Company had annual committments under non-cancellable operating leases as detailed belwo		
Operating leases which expire:		
After more than five years	26860	26131

9. SUMMARY OF PRINCIPAL DIFFERENCES OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES BETWEEN THE UNITED KINGDOM AND THE UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The company's financial statements have been prepared under United Kingdom Generally Accepted Accounting Principles (“UK GAAP”), which differs in certain significant respects from the United States Generally Accepted Accounting Principles ("US GAAP"). The principal differences between the Company's accounting policies under UK GAAP and US GAAP are set out below:

1. Reconciliation of net loss and net assets between UK GAAP and US GAAP.

There are no significant differences between the net loss and stockholders' equity as reported under UK GAAP and as reported under US GAAP.

2. Loss per share.

There are no significant differences between the loss per share as reported under UK GAAP and as reported under US GAAP.

3. Statements of cash flows.

There are no significant differences between the statement of cash flows as reported under UK GAAP and as reported under US GAAP.

Martech Systems (Weymouth) Limited

Management accounts (unaudited) 30 April 2005

Balance sheet

	2005	
	£	£
Tangible fixed assets		24,518
Current assets		
Work in progress	45,474	
Trade debtors	213,152	
Other debtors	1,257	
Prepayments	2,467	
Cash at bank	231,181	
	493,531	
Current liabilities		
Directors	1,913	
Corporation tax	57,882	
Other taxation and social security	31,489	
Trade creditors	55,397	
Accruals	10,485	
	157,166	
Net current assets		336,365
Total assets less liabilities		360,883
Capital and reserves		
Share capital		15,000
Profit and loss account		345,883
		360,883

Martech Systems (Weymouth) Limited

Management accounts (unaudited) 30 April 2005

Profit and loss account

		2005 £
Turnover		589,377
Cost of sales		
Purchases	43,553	
Consultancy	120,083	
Production staff	215,020	
		(378,656)
Gross profit		210,721
Administrative expenses		
Indirect wages	76,881	
Rent	14,922	
Depreciation	5,971	
Other expenses	41,127	
		(138,901)
Operating profit		71,820
Interest receivable		2,024
Pre tax profit		73,844
Corporation tax		(14,030)
Dividends		0
Profit brought forward		286,069
Profit carried forward		345,883

Martech Systems (Weymouth) Limited

Management accounts (unaudited) 30 April 2006

Balance sheet

	2006	
	£	£
Tangible fixed assets		22,039
Current assets		
Work in progress	70,160	
Trade debtors	189,805	
Other debtors	1,385	
Prepayments	2,145	
Cash at bank	242,839	
	506,334	
Current liabilities		
Directors	3,978	
Corporation tax	33,759	
Other taxation and social security	46,560	
Trade creditors	53,562	
Accruals	12,982	
	150,841	
Net current assets		355,493
Total assets less liabilities		377,532
Capital and reserves		
Share capital		15,000
Profit and loss account		362,532
		377,532

Martech Systems (Weymouth) Limited

Management accounts (unaudited) 30 April 2006

Profit and loss account

		2006 £
Turnover		484,005
Cost of sales		
Purchases	58,146	
Consultancy	49,642	
Production staff	222,836	
		(330,624)
Gross profit		153,381
Administrative expenses		
Indirect wages	80,961	
Rent	14,718	
Depreciation	2,607	
Other expenses	34,735	
		(133,021)
Operating profit		20,360
Interest receivable		2,554
Pre tax profit		22,914
Corporation tax		(4,354)
Dividends		0
Profit brought forward		343,972
Profit carried forward		362,532

CONTENTS **PAGES**

Report of Independent Registered Certified Public Accounting Firm F-40

Financial Statements

Balance Sheets F-41
Statement of Operations F-42
Statement of Changes in Stockholders' Equity F-43
Statement of Cash Flows F-44
Notes to the Financial Statements F-45

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors
Miller & Hilton Inc.
Salt Lake City, Utah

We have audited the accompanying balance sheets of **Miller & Hilton Inc.** (the "Company"), as of October 31, 2006 and 2005, and the related statements of stockholder's equity, operations and cash flows for each of the two years in the period ended October 31, 2006. 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.

A s 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 **Miller & Hilton Inc.** as of October 31, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

/S/ Russell Bedford Stefanou Mirchandani LLP

Russell Bedford Stefanou Mirchandani LLP

New York, New York
April 23, 2007

MILLER AND HILTON, INC
BALANCE SHEETS
OCTOBER 31, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	$ 23,161	$ 210,311
Accounts receivable, Net (Note 2)	448,356	301,045
Unbilled receivables (Note 3)	26,372	211,163
Other current assets	-	53
Total current assets	497,889	722,572
Property and equipment, net (Note 4)	86,635	58,305
Total assets	$ 584,524	$ 780,877
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 336,242	$ 89,497
Deferred revenue (Note 3)	110,145	535,135
Accrued expenses (Note 7)	150,702	192,838
Line of credit (Note 8)	34,375	45,411
Notes payable -related party-short term (Note 9)	44,129	44,130
Notes payable-autos-short term (Note 11)	12,797	11,190
Deferred compensation-short term (Note 10)	21,850	21,850
Total current liabilities	710,240	940,051
NON-CURRENT LIABILITIES		
Notes payable -related party-short term	44,130	88,259
Notes payable-autos-short term	42,075	26,899
Deferred compensation-short term	69,191	91,041
Total liabilities	865,636	1,146,250
Deficiency in Stockholders' equity: (Notes 12, and 13)		
Common stock- $1 par value, 1000 shares authorized; 402 shares issued at as of October 31, 2006 and 2005	402	402
Retained earnings	138,091	133,165
Additional paid-in capital	67,500	-
Less: Cost of treasury stock	(244,611)	(284,604)
Less: Cost of stock subscribed	(147,994)	(214,336)
Less: Stock subscription receivable (Note 5)	(94,500)	-
Total deficiency in stockholders' equity	(281,112)	(365,373)
Total liabilities and deficiency in stockholders' equity	$ 584,524	$ 780,877

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

MILLER AND HILTON INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED OCTOBER 31, 2006 and 2005

	2006	2005
Net revenue	$ 2,969,164	$ 1,595,468
Cost of revenue	1,515,785	773,065
Gross profit	1,453,379	822,403
Selling, general and administrative expenses	1,345,408	1,005,235
Operating income (loss)	107,971	(182,832)
Other income (expense)	16,790	(11,744)
Net income (loss) before income taxes	124,761	(194,576)
Provision for income taxes	-	-
New income (loss)	$ 124,761	$ (194,576)

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

MILLER AND HILTON INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWO YEARS ENDED OCTOBER 31, 2006

	Common Stock		Treasury Stock		Common Stock	Stock Subscription	Additional Paid-in	Retained	
	Shares	Amount	Shares	Amount	Subscribed	Receivable	Capital	Earnings	Total
Balance, October 31, 2004	402	$402.00	(25)	$(110,262)	$ (280,678)	$ -	$ -	$ 327,741	$ (62,797)
Stock buy-back from the Hilton Estate			(13)	(66,342)	66,342				$ -
Stock buy-back from Brent Miller			(24)	(108,000)					$(108,000)
Net loss								(194,576)	$(194,576)
Balance, October 31, 2005	402	402	(62)	(284,604)	(214,336)	-	-	133,165	(365,373)
Stock buy-back from the Hilton Estate			(13)	(66,342)	66,342				-
Stock buy-back from Brent Miller			(20)	(108,000)					(108,000)
Fair value of options issued to employees and and officers as compensation							67,500		67,500
Treasury stock issued to officers in exchange for note receivables			42	214,335		(94,500)		(119,835)	-
Net income								124,761	124,761
Balance, October 31, 2006	402	$ 402	(53)	$(244,611)	$ (147,994)	$ (94,500)	$ 67,500	$ 138,091	$(281,112)

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

MILLER AND HILTON, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from operations	$ 124,761	$ (194,576)
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation	15,295	15,885
Stock compensation	67,500	-
Gain on sale of asset	(17,534)	-
Changes in operating assets and liabilities:		
Accounts receivable	(147,311)	(52,104)
Unbilled receivables	184,791	(149,232)
Inventories	-	46,934
Other current assets	53	47
Accounts payable	246,745	17,568
Accrued expenses	(424,990)	55,106
Deferred compensation	(21,850)	(21,350)
Deferred revenue	(42,136)	531,066
Net cash provided by operating activities	(14,676)	249,344
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	-	(11,105)
Proceeds from sale of equipment	17,000	-
Net cash provided by (used in) investing activities	17,000	(11,105)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Payments to) proceeds from line of credit	(11,036)	29,821
Payments on note payable - related party	(44,130)	(44,129)
Payments for repurchase of treasury stock	(108,000)	(108,000)
Note payable - autos	(26,308)	(11,448)
Net cash (used in) provided by financing activities	(189,474)	(133,756)
Net (decrease) increase in cash and cash equivalents	(187,150)	104,483
Cash and cash equivalents, beginning of year	210,311	105,828
Cash and cash equivalents, end of year	$ 23,161	$ 210,311
Cash paid during the year for:		
Income taxes	$ 100	$ 2,900
Interest	$ 9,566	$ 6,190

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business and Basis of Presentation

Miller & Hilton, Inc, DBA Colmek Systems Engineering ("The Company" or "Colmek") was formed under the laws of the State of Utah in 1977. The Company provides services to address critical design and manufacturing problems for defense, research and exploration companies. The Company's designs and systems are used in military and commercials applications where rigged-reliability under extreme operational conditions is paramount and lives depend on accurate and precise information. We are based out of Salt Lake City, Utah where our research and development, sales and manufacturing facilities are also located.

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 an operating and payroll accounts.

Trade Receivables, Net

Customer account balances are monitored through a review of account balances, an assessment of customer financial condition and interactions with the customers. Allowances for doubtful accounts are established through a specific identification of problem accounts. There was no allowance for doubtful accounts at October 31, 2006 and 2005.

Inventories

Inventories are stated at the lower of cost or market and are valued primarily on a first-in, first-out ("FIFO") basis.

Property, Plant and Equipment, Net

Colmek uses a straight-line method for its remaining assets over the estimated useful lives of such assets as follows: land improvements, 20 years; buildings and improvements, 20 to 40 years; and machinery and equipment, 2 to 12 years. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized at cost.

Revenue Recognition

Sales are recorded on a percentage of completion of signed contract. Contracts are completed when persuasive evidence of delivery and acceptance exists. In the contracts the selling price is fixed or determinable, collectibility is reasonably assured and the services have been rendered or the products have been shipped and risk of loss has transferred to the customer.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

For contracts that include multiple deliverables, such as installation, repair, training, aftermarket supplies or service, Colmek applies the guidance in Emerging Issues Task Force ("EITF") 00-21 "*Revenue Arrangements with Multiple Deliverables"* to determine whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if: (1) the delivered element(s) has value to the customer on a stand-alone basis; (2) there is objective and reliable evidence of the fair value of the undelivered element(s); and (3) the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is considered probable and is substantially in the control of Colmek. If all three criteria are met, the appropriate revenue recognition convention is then applied to each separate unit of accounting. The total arrangement consideration is allocated to the separate units of accounting based on each component's objectively determined fair value, such as sales prices for the component when it is regularly sold on a stand-alone basis or third-party prices for similar components. If all three criteria are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance conditions.

Warranty services are provided on an as requested basis. There is no provision for the cost of warranty services.

Advertising Cost

Advertising costs are expensed as incurred. The Company did not incur any material advertising costs during the years ended October 31, 2006 and 2005.

Income Taxes

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes provided for temporary differences between amounts of assets and liabilities recorded for tax and financial reporting purposes. Deferred tax assets include the tax benefits for losses and credit carry-forwards that will result in the reduction of taxes payable in future years.

Stock Based Compensation

Stock Based Compensation — SFAS No. 123, "Accounting for Stock-Based Compensation", establishes and encourages 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 permits 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. We use the fair value method for equity instruments granted to employees and 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.

NOTE 2 ACCOUNTS RECEIVALBE

Trade receivables at October 31, 2006 and 2005 were $448,356 and $301,045, respectively.

NOTE 3 CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the balance sheet as Unbilled Receivables of $ 26,372 and $ 211,163 as of October 31, 2006 and 2005 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 $ 110,145 and $ 535,135 as of October 31, 2006 and 2005 respectively.

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT, NET

Colmek uses a straight-line method for its remaining assets over the estimated useful lives of such assets as follows: land improvements, 20 years; buildings and improvements, 20 to 40 years; and machinery and equipment, 2 to 12 years. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized at cost.

Property, plant and equipment, net consist of the following:

	At October 31,	
	2006	2005
Buildings and improvements	$ 44,966	$ 44,966
Trucks and Autos	80,718	76,647
Machinery and equipment	210,760	247,440
	336,444	369,053
Less: Accumulated depreciation	249,809	310,748
	$ 86,635	$ 58,305

Depreciation expense for the years ended October 31, 2006 and 2005, was $15,295 and $15,885 respectively.

NOTE 5 STOCK SUBSCRIPTION NOTE RECEIVALBE - RELATED PARTY

On November 16, 2005 the Company sold 42 shares of treasury stock to officers in the Company in exchange for notes receivable of $ 94,500 due on November 15, 2010. Interest on the unpaid balance of the notes is at one percent higher then the prime rate. Subsequent to the year end these notes receivable were forgiven by the Company.

The shareholders, the number of shares conveyed to each, and their related receivables are as follows:

	Shares	Note Receivable
Scott DeBo	32	$ 72,000
Craig Adamson	5	$ 11,250
James Adamson	5	$ 11,250
		$ 94,500

NOTE 6 INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recog0nistion 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 $445,863 which expire through 2026, subject to limitations of Section 384 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $156,052. 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.

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

Non-current:	2006	2005
Net operating loss carry forward	$ 445,863	$ -
Valuation allowance	(445,863)	-
Net deferred tax asset	$ -	$ -

NOTE 7 ACCRUED EXPENSES

Accrued expenses as of October 31, are as follows:

	At October 31,	
	2006	2005
Accrued wages and payroll taxes	$ 66,445	$ 83,532
Accrued vacation	50,644	47,022
State income tax payable	100	2,678
Retirement plan contributions	33,513	59,606
	$ 150,702	$ 192,838

NOTE 8 LINE OF CREDIT

The Company has an unsecured line of credit with Wells Fargo Bank in March 2005 which provided for a credit ceiling of $50,000 and an interest rate of 13 percent annually. The line is personally guaranteed by an officer of the Company. As of the years ended October 31, 2006 and 2005 the balance outstanding are $34,375 and $45,411 respectively.

NOTE 9 NOTE PAYABLE - RELATED PARTY

The Company entered into a stock buy-back agreement with the Estate of Thomas Hilton, a former officer of the Company in 2002 to buy back the stock of the Company owned by the Estate. The Company paid the Estate a $675,000 initial payment in 2002, a second payment of $125,000 in 2003 and was scheduled to make additional payments of $44,129 over the next five years. Balance owed to the Estate as of the year ended October 31, is as follows:

	At October 31,	
	2006	2005
Note payable- related party	$ 88,259	$ 132,389
Less: short term portion	44,129	44,130
Long term note payable - related party	$ 44,130	$ 88,259

NOTE 10 DEFERRED COMPENSATION

In January of 2001 the Company began retirement payments, as previously agreed upon, to Dale Kendall, a retired employee. Payments began at $1,820.83 per month over a ten year period. The final payment is due in December 2010. The balance outstanding as of the year ended October 31, is as follows:

	At October 31,	
	2006	2005
Deferred compensation	$ 91,041	$ 112,891
Less: short term portion	21,850	21,850
Long term deferred compensation	$ 69,191	$ 91,041

NOTE 11 NOTE PAYABLE - AUTOS

As of the years ended October 31, the Company had the following outstanding notes payable related to car financing:

	At October 31,	
	2006	2005
Note payable of $ 31,520 for the financing of a truck for 60 monthly payments of $525.33. As of October 31, 2006 the truck was sold to an officer of the Company and the related debt settled	$ -	$ 18,379
Note payable of $ 30,127 for the financing of a truck for 66 monthly payments of $4,782.69 and annual interest of 5.34%	14,814	19,710
Note payable of $ 41,091.09 for the financing of a truck for 60 monthly payments of $897.18 and annual interest of 10.99%	$ 40,058	$ -
Note payable - autos	54,872	38,089
Less: short term portion	12,797	11,190
Long term note payable-autos	$ 42,075	$ 26,899

NOTE 12 CAPITAL STOCK

The Company is authorized to issue 1000 shares of common stock with a par value of $1 per share. As of October 31, 2006 and 2005 the Company had issued 402 shares of common stock.

Treasury Stock

During the fiscal year 2004 the Company began to buy back shares of stock from its primary shareholder Brent Miller. During the years ended October 31, 2006 and 2005 the Company bought back 20 and 24 respectively for a total cost of $ 108,000 each.

NOTE 13 STOCK OPTIONS

During the year ended October 31, 2006 we issued 30 common share purchase options to employees and officers of the Company. The options were issued with an exercise price of $500. All options vested over a one year period. The initial fair value of the options was $67,500 using the Black Scholes method at the date of grant of the options based on the following assumptions (1) risk free rate of 6% (2) dividend yield of 0%. (3) volatily factor of expected market price of our common stock of 200% (4) an expected life of the options of ten years. The fair value of options is being expensed over the vesting period. During the years ended October 31, 2006 and 2005 $67,500 and $0 was charged to expense.

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

	2006		2005	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of year	-	$ -	-	$ -
Granted during the period	30	500	-	-
Exercised during the period	-	-	-	-
Terminated during the period	-	-	-	-
Outstanding at end of the year	30	500	-	$ -
Exercisable at end of the year	30	50	-	$ -

The number and weighted average exercise prices of stock purchase options and warrants outstanding as of October 31, 2006 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Weighted Average Exercise Price
500	30	9.00	500

NOTE 14 CONTINGENCIES AND COMMITMENTS

Litigation

The ultimate legal and financial liability of Colmek in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the opinion of management, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of these legal proceedings, net of liabilities already accrued in Colmek's Balance Sheet, is not expected to have a material adverse effect on Colmek's financial position, although an unexpected resolution in any reporting period of one or more of these matters could have a significant impact on Colmek's results of operations for that period.

Operating Leases

The Company has a current 5 year operating lease for their office and warehouse space expiring on March 31, 2010. Future minimum lease obligations are approximately $136,800.

Concentrations

During the year ended October 31, 2006 we had no significant concentration of business dependant on any one supplier.

NOTE 15 SUBSEQUENT EVENTS

Subsequent to the year end on April 9, 2007 the Company was acquired by Coda Octopus Group, Inc. (“Coda”) a Delaware corporation. The total purchase price was approximately $2.075 million, consisting of cash paid at the closing of the transaction of $ 800,000 and the issuance of 532,090 shares of Coda common stock. Approximately $700,000 is also due and payable on the first anniversary of the closing date evidenced by secured promissory notes to the Company’s shareholders. Under the terms of the agreement the Company’s shares have been pledged as collateral security for the performance of the deferred payment obligations under the notes.

Pro Forma Financial Information.

Condensed Consolidated Pro Forma Unaudited Balance Sheet as of October 31, 2006
Condensed Consolidated Pro Forma Unaudited Statement of Losses for the Year Ended October 31, 2006
Notes to Condensed Consolidated Pro Forma Unaudited Financial Statements

Unaudited Pro Forma Condensed Financial Information

On April 6, 2007, Coda Octopus Group, Inc. (the " Company", "Coda" or "COGI") entered into a Stock Purchase Agreement ("Agreement") with the stockholders of Miller and Hilton, Inc. d/b/a Colmek Systems Engineering ("Colemk") , a company formed under the laws of the state of Utah. The transaction is accounted for using the purchase method of accounting.

The Proforma Unaudited Financial Statements have been prepared by management of the Company in order to present consolidated financial position and results of operations of the COGI and Colmek if the acquisition had occurred as of October 31, 2006 for the pro forma condensed balance sheet and to give effect to the acquisition of the Company, as if the transaction had taken place at November 1, 2005 for the pro forma condensed consolidated statement of losses for the year ended October 31, 2006.

The pro forma information is based on historical financial statements giving effect to the proposed transactions using the purchase method of accounting and the assumptions and adjustments in the accompanying notes to the pro forma financial statements. The unaudited pro forma financial information is not necessarily indicative of the actual results of operations or the financial position which would have been attained had the acquisitions been consummated at either of the foregoing dates or which may be attained in the future. The pro forma financial information should be read in conjunction with the historical financial statements of the Company and Colmek (including notes thereto) included in this Registration Statement.

CODA OCTOPUS GROUP, INC.
Colmek Acquisition
Pro Forma
Balance Sheet
(Unaudited)

ASSETS	COGI October 31, 2006	Colmek October 31, 2006	Pro Forma Adjustments	Reference	Pro Forma Balances (Unaudited)
Current assets:					
Cash and cash equivalents	$ 1,377,972	$ 23,161	$ (800,000)	Note 3	$ 601,133
Accounts receivable, net of allowance for doubtful accounts	1,096,191	448,356	(24,777)	Note 2	1,519,770
Unbilled Receivables		26,372			26,372
Inventory	1,951,392				1,951,392
Tax credit receivable	234,593				234,593
Due from MSGI Security Solutions, Inc.	533,147				533,147
Due from related parties	104,720				104,720
Other current assets	103,296				103,296
Prepaid expenses	159,969				159,969
Total current assets	5,561,280	497,889	(824,777)		5,234,392
Property and equipment, net	155,730	86,635			242,365
Rental equipment, net	120,851				120,851
Notes Receivable					-
Goodwill and other intangible assets, net	1,071,700		2,573,926	Note 3	3,645,626
Total assets	$ 6,909,561	$ 584,524	$ 1,749,149		$ 9,243,234
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable, trade	$ 1,997,817	$ 336,242	$ (24,777)	Note 2	$ 2,309,282
Deferred Revenue		110,145			110,145
Accrued expenses and other current liabilities	2,542,918	150,702			2,693,620
Deferred payment related to acquisition of Martech Systems Ltd	381,680				381,680
Accrued dividends on Series A & B Preferred Stock	304,394				304,394
Notes payable - short-term		12,797	700,000	Note 3	712,797
Due to related parties	302,877	65,979			368,856
Loans payable/Line of Credit	1,119,496	34,375			1,153,871
Total current liabilities	6,649,182	710,240	675,223		8,034,645
Loans and notes payable, long term					
Notes Payable - Related Party - Short Term		44,130			44,130
Notes Payable - Autos - Short Term		42,075			42,075
Deferred Compensation - Short Term		69,191			69,191
Total liabilities	6,649,182	865,636	675,223		8,190,041
Stockholders' equity:					
Preferred stock, $.001 par value; 5,000,000 shares					

authorized, 23,641 issued and outstanding, as of October 31st, 2006	24				24
41,000 shares Series B issued and outstanding as of October 31, 2006	41				41
Common stock, $.001 par value; 70,000,000 shares authorized, 24,834,167 shares issued and outstanding as of October 31, 2006	24,302		532	Note 3	24,834
Common Stock - 402 Shares		402	(402)	Note 3	-
Common Stock subscribed	153,750				153,750
Additional paid-in capital	25,858,307	67,500	724,782	Note 3	26,650,589
Foreign currency translation adjustment	(292,821)				(292,821)
Retained Earnings		138,091	(162,868)	Note 3	(24,777)
Accumulated deficit	(25,483,224)		24,777	Note 3	(25,458,447)
Less: Cost of Treasury Stock		(244,611)	244,611	Note 3	-
Less: Cost of Stock Subscribed		(147,994)	147,994	Note 3	-
Less: Stock subscription receivable		(94,500)	94,500	Note 3	-
Total stockholders' equity	260,379	(281,112)	1,073,926		1,053,193
Total liabilities and stockholders' equity	$ 6,909,561	$ 584,524	$ 1,749,149		$ 9,243,234

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

Coda Octopus Group Inc.
Colmek Acquisition Pro Forma
Statement of Operations
(Unaudited)

	COGI October 31, 2006	Colmek October 31, 2006	Pro Forma Adjustments	Reference	Pro Forma Consolidated (Unaudited)
Net revenue	$ 7,291,291	$ 2,969,164	$ (24,777)	Note 2	$ 10,235,678
Cost of revenue	2,611,590	1,515,785	(24,777)	Note 2	4,102,598
Gross profit	4,679,701	1,453,379	-		6,133,080
Research and development	3,130,821	-	-		3,130,821
Selling, general and administrative expenses	7,453,946	1,345,408			8,799,354
Non-recurring expenses	447,750	-	-		447,750
Operating income	(6,352,816)	107,971	-		(6,244,845)
Other income (expense)					
Other income	3,012	16,790			19,802
Interest expense	(1,203,690)				(1,203,690)
Total other income (expense)	(1,200,678)	16,790	-		(7,428,733)
Loss before income taxes	$ (7,553,494)	$ 124,761	-		$ (7,428,733)
Provision for income taxes	5,676				5,676
Net loss	(7,559,170)	124,761	-		(7,434,409)
Preferred Stock Dividends:					
Series A	(309,914)	-	-		(309,914)
Series B	(74,130)	-	-		(74,130)
Beneficial Conversion Feature	(4,152,800)	-	-		(4,152,800)
Net Income (Loss) Applicable to Common Shares	$ (12,096,014)	$ 124,761	$ -		$ (11,971,253)
Loss per share, basic and diluted	(0.50)				(0.49)
Weighted average shares outstanding	24,030,423	532,187			24,562,610
Comprehensive loss:					
Net Income (loss)	$ (7,559,170)	$ 124,761	$ -		$ (7,434,409)
Foreign currency translation adjustment	(282,704)	-	-		(282,704)
Comprehensive loss	$ (7,841,874)	$ 124,761	$ -		$ (7,717,113)

The accompanying notes are an integral part of these condensed pro forma unaudited consolidated financial statements.

Unaudited Pro Forma Condensed Financial Information

Note 1 - Basis of Presentation

The purchase method of accounting has been used in the preparation of the accompanying unaudited pro forma combined financial statements. Under this method of accounting, the purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed according to their respective fair values, with the excess purchase consideration being recorded as goodwill. For the purposes of pro forma adjustments, Coda Octopus has followed Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Intangible Assets."

The unaudited pro forma condensed combined statements of operations are presented combining Coda Octopus's consolidated statement of operations for the year ended October 3 1, 2006 and Colmek's audited statement of operations for the year ended October 31, 2006. These pro forma statements are based on such financial statements after giving effect to the transaction under the purchase method of accounting and the assumptions and adjustments described below. The pro forma information does not purport to be indicative of the results, which would have been reported if the purchase had been in effect for the periods presented or which may result in the future.

Note 2 - Intercompany Trading

For the year ended October 31, 2006, there was intercompany trading between the two companies totaling $24,777.

Note 3 - Pro forma purchase price adjustments

Pursuant to the Share Purchase Agreement the selling shareholders of Colmek, in total received 532,090 shares of Coda Octopus common stock as part of the purchase price under acquisition agreement. For purposes of the unaudited pro forma combined financial statements, the fair value of the Company's common stock issued as a part of the acquisition was determined based on the price of the Company's common stock on the day of the acquisition of Colmek on April 6th, 2007.

The components of the purchase price were as follows:

Cash	$	800,000
Deferred Promissory Note		700,000
Common Stock Issued		532
Additional Paid In Capital		792,282
Goodwill	$	2,292,814

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 24. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Our Certificate of Incorporation, as amended, provide to the fullest extent permitted by Delaware law, our directors or officers shall not be personally liable to us or our stockholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our Certificate of Incorporation, as amended, is to eliminate our rights and our stockholders (through stockholders' derivative suits on behalf of our company) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our Certificate of Incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify a director, officer, employee or agent made a party to an action by reason of that fact that he or she was a director, officer employee or agent of the corporation or was serving at the request of the corporation against expenses actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and with respect to any criminal action, had no reasonable cause to believe his or her conduct was unlawful.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth an estimate of the costs and expenses payable by Registrant in connection with the offering described in this registration statement. All of the amounts shown are estimates except the Securities and Exchange Commission registration fee:

Securities and Exchange Commission Registration Fee	$	5,270
Accounting Fees and Expenses	$	25,000*
Legal Fees and Expenses	$	75,000*
Total	$	105,270

***Estimated**

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

On August 13, 2004, pursuant to the terms of the Share Exchange between Panda Project and Fairwater Technologies Limited the Company issued 20,050,000 shares of common stock to the former shareholders of Coda Octopus Limited.

Between February and March 2005 the Company sold to an individual investor 1,000,000 shares of common stock for a total purchase price of $800,534.

On October 31, 2005, we issued 15,000 shares of our Series A Preferred Stock to one investor for total cash consideration of $2,655,000.

On April 30, 2006, we issued a total of 7,320.88 shares of our Series A Preferred Stock to a group of investors for total cash consideration of $1,211,755.

In April 2006, we issued to a public relations consultant for services rendered, a 5 year warrant to purchase 400,000 shares of our common stock at a price of $0.58 per share of common stock.

In May 2006, we issued to two consultants for services rendered, 5 year warrants to purchase 750,000 shares of our common stock at a purchase price of $0.50.

In June 2006, we issued to one institutional investor, Units consisting of 23,000 shares of our Series B Preferred Stock plus five-year warrants to purchase 4,600,000 shares of our common stock at a price ranging from $1.30 to $1.70 per share for total cash consideration of $2,300,000

In June 2006, as part of an equity raise fee arrangement, we issued to a financial institution a 5 year warrant to purchase 160,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70.

In July 2006, we issued to two individuals for legal services rendered, options to purchase 68,000 shares of our common stock at a price of $1.50 per share.

In July 2006, we issued to two investors 820 shares of our Series A Preferred Stock for a total cash consideration of $82,000.

From September 2006 through January 2007, we issued to one institutional investor Units consisting 23,000 shares of our Series B Preferred Stock and 650,000 shares of our common stock plus five-year warrants to purchase 4,600,000 shares of our common stock at a price ranging from $1.30 to $1.70 per share for total cash consideration of $2,300,000.

In February 2007 we issued to one investor 3000 shares of our Series B Preferred Stock for a total cash consideration of $300,000 plus five-year warrants to purchase 600,000 shares of our common stock at a price ranging from $1.30 to $1.70 per share for total cash consideration of $300,000.

In October 2006, as part of equity raise fee arrangement, we issued to a financial institution a 5 year warrant to purchase 160,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70.

On October 31, 2006, we issued to an investor 500 shares of our Series A Preferred Stock for a total cash consideration of $50,000.

In April 2007, we issued to one investor 25,000 shares of our common stock plus five-year warrants to purchase 50,000 shares of our common stock at a purchase price ranging from $1.30 - $1.70 per share for a total cash consideration of $25,000.

In April 2007, as consideration for the investor's early conversion of 15,914.18 Series A Preferred Stock, we issued to one investor 5 year warrants to purchase 2,746,418 shares of our common stock at a purchase price ranging from $1.30 to $1.70.

In April 2007, as consideration for three investors' early conversion of 1320 Series A Preferred Stock, we issued to these investors 5 year warrants to purchase 264,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70.

In April 2007 pursuant to the terms of the acquisition agreement between the Company and the sellers of Miller and Hilton d/b/a Colmek Systems Engineering we issued to four of the sellers who are accredited investors 532,090 of our common stock for a value of $532, 090.

Shares for services

In March 2005, we issued to one individual 275,000 shares of common stock in exchange for legal services rendered valued at $27,500 ($0.10 per share).

On July 28, 2005, we issued to an officer of the Company 220,000 shares of common stock in exchange for services rendered, valued at $22,000 ($0.10 per share).

During the year ended October 31, 2006 we issued 634,324 shares of common stock, in exchange for services rendered, valued at $317,160.
During January 2007 we issued to five persons 625,000 shares of common stock in exchange for services valued at $693,750 in the aggregate. ($1.11 per share)

During January 2007 we issued to one financial institution 500,000 shares of common stock in exchange for fees for equity raise valued at $435,00 ($0.87 per share)

On February 2, 2007 we issued 25,000 shares of common stock in exchange for services valued at $30,250 ($1.21 per share).

On March 20, 2007 we issued 40,000 shares of common stock to one service provider for services valued at $48,400 ($1.21 per share).

During the Fiscal Year ending 2006 we issued to Fairwater Technology Group Limited 100,000 shares in exchange for services rendered valued at $87,500 ($0.875 per share).

Recent Sale of Securities

In April and May 2007 we issued to a group of investors a total of 15,000,000 shares of our common stock plus five-year warrants to purchase the same amount of shares of common stock (of which 7,500,000 may be purchased at $1.30 and the balance at $1.70 per share). In connection with this offering, we paid placement agent fees in the amount of $1,200,000 plus warrants to purchase 2,400,000 at a purchase price ranging between $1.30 and $1.70.

All securities were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 4(2) thereunder.

ITEM 27. EXHIBITS

Exhibit Number	Description
2.1	Plan and Agreement of Merger dated July 12, 2004 by and between Panda and Coda Octopus.
2.2	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
5.1	Legal Opinion of Sichenzia Ross Friedman Ference LLP
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.
23.1	Consent of Sichenzia Ross Friedman Ference LLP (included in exhibit 5.1)
23.2	Consent of Russell Bedford Stefanou Mirchandani LLP
23.3	Consent of Russell Bedford Stefanou Mirchandani LLP (Miller & Hilton, Inc.)
23.4	Consent of Coyne, Butterworth & Chalmers

ITEM 28. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes to:

(1) file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and Notwithstanding the forgoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation From the low or high end of the estimated maximum offering range may be reflected in the form of prospects filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(g) for the purpose of determining liability under the Securities Act to any purchaser:

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form SB-2 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, on this May 18, 2007.

CODA OCTOPUS GROUP, INC.

By: /s/ *Jason Lee Reid*

Jason Lee Reid

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jason Lee Reid his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any subsequent registration statements pursuant to Rule 462 of the Securities Act of 1933 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jason Lee Reid	Director and Chief Executive Officer (Principal Executive and Accounting Officer)	May 18, 2007
/s/ Paul Nussbaum	Chairman	May 18, 2007
/s/ Rodney Peacock	Director	May 18, 2007

Secretary of State
Division of Corporations
Delivered 11:00 AM 07/20/2004
FILED 11:00 AM 07/20/2004
SRV 040529810 - 3828185 FILE

PLAN AND AGREEMENT OF MERGER BY AND BETWEEN PANDA AND CODA OCTOPUS

THIS PLAN AND AGREEMENT OF MERGER (hereinafter referred to as this "Agreement") dated as of July 12, 2004, is made and entered into by and between The Panda Project, Inc., a Florida corporation ("Panda") and Coda Octopus Group, Inc., a Delaware corporation ("Coda Octopus").

W-I-T-N-E-S-S-E-T-H:

WHEREAS, Panda is a corporation organized and existing under the laws of the State of Florida; and

WHEREAS, Coda Octopus is a wholly-owned subsidiary corporation of Panda, having been incorporated on July 13, 2004; and

NOW THEREFORE, in consideration of the premises, the mutual covenants herein contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto (the "Parties") agree that Panda shall be merged into Coda Octopus (the "Merger") upon the terms and conditions hereinafter set forth.

ARTICLE I

Merger

On July 12, 2004 or as soon as practicable thereafter (the "Effective Date"), Panda shall be merged into Coda Octopus, the separate existence of Panda shall cease and Coda Octopus(following the Merger referred from time to time as the "Surviving Company") shall continue to exist under the name of "Coda Octopus," by virtue of, and shall be governed by, the laws of the State of Delaware. The address of the registered office of Panda in the State of Delaware will be Trolley Square, Suite 26 C, Wilmington, Delaware. The name of its registered agent at such address is Inc. Plan (USA), Inc.

ARTICLE II

Certificate of Incorporation of Panda

The Certificate of Incorporation of the Surviving Company shall be the Certificate of Incorporation of Coda Octopus as in effect on the date hereof without change unless and until amended in accordance with applicable law.

ARTICLE III

By-Laws of Coda Octopus

The By-Laws of Coda Octopus shall be the By-Laws of the Surviving Company as in effect on the date hereof without change unless and until amended or repealed in accordance with applicable law.

ARTICLE IV

Effect of Merger on Stock of Constituent Corporation

4.01 On the Effective Date, (i) each three (300) hundred outstanding shares of Panda common stock ("Panda Common Stock") shall be converted into one share of Coda Octopus common stock, $.001 par value, ("Coda Octopus Common Stock"), except for those shares of Panda Common Stock with respect to which the holders thereof duly exercise their dissenters' rights under Florida law,

4.02

(a) Olde Monmouth Stock Transfer Co., Inc., 200 Memorial Parkway, Atlantic Highlands New Jersey 07716, shall act as exchange agent in the Merger.

(b) As soon as practicable, after the Effective Date, each person who was, at the time of mailing or at the Effective Date, a holder of record of issued and outstanding Panda ("stock") will be mailed (i) a form letter of transmittal and (ii) instructions for effecting the surrender of the certificate or certificates, which immediately prior the Effective Date represented issued and outstanding shares of stock ("Panda Certificates"), in exchange for certificates representing Coda Octopus Common Stock. Upon surrender of a Panda Certificate for cancellation to Coda Octopus, together with a duly executed letter of transmittal, the holder of such Panda Certificate shall subject to paragraph (f) of this section 4.03 be entitled to receive in exchange therefor a certificate representing that number of Coda Octopus shares into which Panda Stock theretofore represented by Panda Certificate so surrendered shall have been converted pursuant to the provisions of this Article IV, and Panda Certificate so surrendered shall forthwith be canceled.

(c) No dividends or other distributions declared after the Effective Date with respect to Panda and payable to holders of record thereof after the Effective Date shall be paid to the holder of any unsurrendered Panda Certificate with respect to Panda Stock which by virtue of the Merger are represented thereby, nor shall such holder be entitled to exercise any right as a holder of Panda, until such holder shall surrender such Panda Certificate. Subject to the effect, if any, of applicable law, after the subsequent surrender and exchange of a Panda Certificate, the holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which became payable prior to such surrender and exchange with respect to Panda Stock represented by such Certificate.

(d) If any stock certificate representing Panda is to be issued in a name other than that in which Panda Certificate surrendered with respect thereto is registered, it shall be a condition of such issuance that Panda Certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the person requesting such issuance shall pay any transfer or other taxes required by reason of the issuance to a person other than the registered holder of Panda Certificate surrendered or shall establish to the satisfaction of Coda Octopus that such tax has been paid or is not applicable.

(e) After the Effective Date, there shall be no further registration of transfers on the stock transfer books of Panda of the shares of stock, or of any other shares of stock of Panda, which were outstanding immediately prior to the Effective Date. If after the Effective Date certificates representing such shares are presented to Panda they shall be canceled and, in the case of Panda Certificates, exchanged for certificates representing Coda Octopus Stock as provided in this Article IV.

ARTICLE V

Corporate Existence, Panda and Liabilities of Panda

5.01 On the Effective Date, the separate existence of Panda shall cease. Panda shall be merged with and into Coda Octopus in accordance with the provisions of this Agreement. Thereafter, Coda Octopus shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature, and shall be subject to all the restrictions, disabilities and duties of each of the Parties and all and singular; the rights, privileges, powers and franchises of Panda, and all property, real, personal and mixed, and all debts due to each of them on whatever account, shall be vested in Coda Octopus; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter the property of Coda Octopus, as they were of the respective constituent entities, and the title to any real estate whether by deed or otherwise vested in Panda, shall not revert to be in any way impaired by reason of the Merger; but all rights of creditors and all liens upon any property of the Parties, shall be preserved unimpaired, and all debts, liabilities and duties of the respective constituent entities, shall thenceforth attach to Coda Octopus, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

5.02 Coda Octopus will execute and deliver, or cause to be executed and delivered, all such deeds, assignments and other instruments, and will take or cause to be taken such further or other action as Coda Octopus may deem necessary or desirable in order to vest in and confirm to Coda Octopus title to and possession of all the property, rights, privileges, immunities, powers, purposes and franchises, and all and every other interest, of Coda Octopus and otherwise to carry out the intent and purposes of this Agreement.

ARTICLE VI

Officers and Directors of Coda Octopus

6.01 Upon the Effective Date, the officers and directors of Panda shall be officers and directors of Coda Octopus in office at such date, and such persons shall hold office in accordance with the by-laws of Coda Octopus or until their respective successors shall have been appointed or elected.

6.02 If, upon the Effective Date, a vacancy shall exist in the Board of Directors of Coda Octopus, such vacancy shall be filled in the manner provided by its by-laws.

ARTICLE VII

Approval by Shareholders; Amendment; Effective Date

7.01 This Agreement and the Merger contemplated hereby are subject to approval by the requisite vote of shareholders in accordance with applicable Florida law. As promptly as practicable after approval of this Agreement by shareholders in accordance with applicable law, duly authorized officers of the respective Parties shall make and execute a Certificate of Merger and shall cause such documents to be filed with the Secretary of State of Florida and the Secretary of State of Delaware, respectively, in accordance with the laws of the States of Florida and Delaware. The Effective Date of the Merger shall be the date on which the Merger becomes effective under the laws of Florida or the date on which the Merger becomes effective under the laws of Delaware, whichever occurs later.

7.02 The Board of Directors of Panda and Coda Octopus may amend this Agreement at any time prior to the Effective Date, provided that an amendment made subsequent to the approval of the Merger by the shareholders of Panda shall not (1) alter or change the amount or kind of shares to be received in exchange for or on conversion of all or any of the capital stock of Panda (2) alter or change any term of the Certificate of Incorporation of Coda Octopus, or (3) alter or change any of the terms and conditions of this Agreement if such alteration or change would adversely affect stockholders.

ARTICLE VIII

Termination of Merger

This Agreement may be terminated and the Merger abandoned at any time prior to the filing of this Agreement with the Secretary of State of Florida and the Secretary of State of Delaware, whether before or after shareholder ratification of this Agreement, by the consent of the Board of Directors of Panda and Coda Octopus

ARTICLE IX

Miscellaneous

In order to facilitate the filing and recording of this Agreement, this Agreement may be executed in counterparts, each of which when so executed shall be deemed to be an original and all such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective officers, all as of the day and year first above written.

THE PANDA PROJECT, INC.

By: _____
William Ahearn, President

CODA OCTOPUS GROUP, INC.

By: _____
William Ahearn, President

Dated

April 6, 2007

Stock Purchase Agreement

Between

(1) THE SHAREHOLDERS IDENTIFIED ON SCHEDULE 1 HERETO

(2) MILLER & HILTON D/B/A COLMEK SYSTEMS ENGINEERING

AND

CODA OCTOPUS (US) HOLDINGS INC.

THIS STOCK PURCHASE AGREEMENT is made on April 6 , 2007

BETWEEN:

Parties

(1) Miller & Hilton d/b/a Colmek Systems Engineering, 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 ("**Company**"); and

(2) The shareholders identified on Schedule 9 of this Agreement (each a "**Seller**" and collectively the "**Sellers**"); and

(3) Coda Octopus (US) Holdings, Inc a Delaware corporation having its headquarters at 164 West 25th Street, 6th Floor, New York, NY10001 ("**Buyer**")

RECITALS

WHEREAS:

(A) The Company is a corporation validly existing and in good standing under the laws of the State of Utah, USA; and

(B) The Sellers as of Closing Date (as is hereinafter defined) will own all the issued and outstanding capital stock of the Company; and

(C) The Sellers wish to sell all of the issued and outstanding capital stock of the Company (including, without limitation, all stock which was issued pursuant to the 2004 Stock Option Plan) and, in reliance upon, *inter alia,* the representations, warranties and undertakings set out in this Agreement, the Buyer wishing to become the sole shareholder of the Company has agreed to purchase the entire issued and outstanding capital stock of the Company for the consideration set forth in this Agreement and upon the terms set forth in this Agreement.

NOW, THEREFORE, for and in consideration of the mutual representations and warranties and agreements hereinafter set forth and other good and valuable consideration, and upon the terms and subject to the conditions hereinafter set forth, the parties agree as follows:

SECTION 1: INTERPRETATION

1.1. The definitions and rules of interpretation in this Section apply in this Agreement.

"**Agreement**" means this stock purchase Agreement including the Schedules and all Exhibits in the agreed form and incorporated herein by reference.

"Business" means the business activities of the Company at Closing and which encompass services for the design and manufacture, installation and other support services of engineering solutions by utilising the application of electronic, software and mechanical expertise and skills entailing small-batch manufacture of primarily electronic equipment and sub-assemblies and which is developed on a bespoke basis and whose client base is mainly in the commercial and government sectors, including defense and security

"**Business Day**" means a day other than a Saturday or Sunday or a public holiday in the State of Utah.

"**Buyer's Disclosure Schedule**" means the Schedules delivered to Seller containing exceptions to the Buyer representations and warranties Schedule 7 and paragraph 7 of Schedule 2.

"**Buyer's Warranties**" means those warranties given by Buyer to the Sellers and set forth in Section 7 and Schedule 7 and "**Buyer Warranty**" means any of them.

"**Cash Consideration**" means that part of the Purchase Price set out in 4.1(a) and which is allocated to each of the Sellers in accordance with Schedule 9 (Apportionment of Purchase Price).

"Closing" means Closing of the sale and purchase of the Shares in accordance with this Agreement;

"**Closing Agenda**" means the agenda set forth in Schedule 4.

"**Closing Date**" has the meaning set out in Section 6 hereof.

"**Closing Documents**" means this Agreement and all the other documents and instruments to be delivered pursuant to this Agreement

"**Code**" means the Internal Revenue Code of 1986 as amended and the rules and regulations promulgated thereunder.

"**C.O.G**." means Coda Octopus Group Inc, a Delaware corporation which has its principal offices at 164 West 25th Street, 6th Floor, New York, NY10001and the issuer of the Consideration Shares.

"**Company Accountants**" means Stewart and Christiansen at 455 East 500 South, Suite 207, Salt Lake City, Utah 84111.

"**Company**" means Miller and Hilton, Inc., d/b/a Colmek Systems Engineering and being a Utah corporation of which certain particulars are set forth in Schedule 1.

"**Consideration Shares**" means 532,187 shares of common stock having a par value of $0.001 each in the capital of the C.O.G (as is defined below in this Section 1) to be allotted by C.O.G in accordance with Section 4.1(c) and the provisions of Section 13 hereof and which are to be issued as part of the consideration for the Shares.

"**Convertible Promissory Note**" means the convertible promissory notes issued by Buyer to each of the Unaccredited Sellers in a form agreed to by the parties and secured by each such Unaccredited Seller's Shares pursuant to the terms of the Pledge Agreement.

"**Deep Sea Associates**" is a Limited Liability Partnership, (an affiliate of Brent Miller), validly existing and in good standing under the laws of Utah and which is the Landlord of the Leasehold Property.

"**Deferred Cash Consideration**" means that part of the Purchase Price to be paid to each of the Sellers in accordance with the Apportionment of Purchase Price Schedule and pursuant to the provisions set forth in Section 4.2(b).

"**Disclosed**" means disclosed in such manner and with sufficient detail to enable a reasonable person entering into transactions of this type to identify the nature and scope of the matter disclosed in the Buyer's Disclosure Schedule and the Seller's Disclosure Schedule.

"**Seller's Disclosure Schedule**" means the schedules prepared by Sellers and delivered to Buyer containing certain disclosures required pursuant to the terms of this agreement.

"**Employment Agreement**" means the agreement for services to be entered into between the Company and (i) Mr. Brent Miller and (ii) Mr. Scott DeBo.

"**Encumbrance**" means any interest or equity of any person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security, interest, title, retention or any other security agreement or arrangement.

"**Exhibits**" means the Exhibits in the agreed form and so marked and attached to this Agreement and which are incorporated by reference herein and made a part hereof.

"**Financial Statement Date**" means in relation to any Fiscal Year of the Company, the last day of that Fiscal Year of the Company.

"**Financial Statements**" means the financial statements of the Company ended on the Financial Statement Date (including balance sheet, income statement and statement of cash flows).

"**Fiscal Year**" means the financial period of the Company commencing on 1st November and ending on October 31st.

"Group" means in relation to a company (wherever incorporated), that company, any company of which it is a Subsidiary (its holding company) and any other Subsidiaries of any such holding company; and each company in a Group is a member of the Group. Unless the context otherwise requires, the application of the definition of Group to any company at any time will apply to the company as it is at that time.

"**Intellectual Property Rights**" means all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, database rights, trade secrets, licenses, internet domain names, information and proprietary rights and know-how and processes as are necessary to the conduct of the Company's business as now conducted and as presently proposed to be conducted and the right to sue for past infringements of any of the foregoing rights.

"**Key Employees**" means Mr. Scott DeBo

"**Knowledge**" means the actual knowledge of the relevant party after reasonable inquiry.

"**Lease Agreement**" means the agreement for the Leasehold Property between the Company and Deep Seas Associates dated 2nd April 2006 and which is appended hereto and marked Exhibit 1.1.

"**Leasehold Property"** means all the buildings and land (more precisely identified in the Lease Agreement) and which is located in the County of Salt Lake City, in the State of Utah and commonly known as Building at 2001 South 3480 West Salt Lake City, Utah (more fully described in the Lease Agreement).

"**Material Adverse Change**" means any circumstance, change in or effect on the business or assets of the Company that individually or in the aggregate with any other circumstances, changes in, or effects on the business or assets of the Company, taken as a whole would materially adversely affect the ability of the Buyer to operate or conduct the business in which it is currently operated or conducted by the Company.

"**New Leasehold Agreement**" means a Lease agreement for the Leasehold Property between the Company and Deep Seas Associates which is to be entered into as a condition of this Agreement in substantially the form attached hereto as Exhibit 1.1(a).

"**Parties**" means the Sellers and the Buyer collectively; and "the Party" shall mean individually any of these Parties as the context requires.

"**Permitted Encumbrances**" means (a) 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.

"**Pledge Agreement**" means the agreement for the security interest to be granted in favor of the Sellers and the Unaccredited Sellers (the terms of sale and purchase for the latter being governed by the Unaccredited Stock Purchase Agreements) in respect of the Deferred Cash Consideration and the Unccredited Sellers Convertible Promissory Note as is defined in the Unaccredited Stock Purchase Agreements.

"Principal Sellers" means Brent Miller and Scott DeBo.

"**Proceeding**" means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted or heard by or before, or otherwise involving, any governmental body or arbitrator.

"**Promissory Notes**" means the secured Promissory Notes issued by Buyer to each of the Sellers in the agreed form constituted and subject to the terms of the Pledge Agreement.

"**Properties**" means all items of personal and mixed, tangible and intangible property (excluding Intellectual Property Rights), rights and assets of the Company and "**Property**" means any of them and includes every part of each of them and Schedule 10 shortly describes all such properties having an original or replacement cost or value of greater than $2,500.

"**Purchase Price**" means the Cash Consideration, the Deferred Cash Consideration and the Consideration Shares payable as set forth in Section 4.1.

"**Regulatory Authorities**" means, collectively, all federal and state regulatory agencies having jurisdiction over the Parties and their respective affiliates.

"Shares" means all the issued and outstanding shares in the Company, including those issued pursuant to the 2004 Stock Option Plan, and comprising those set forth in Schedule 1 hereto.

"**Share Receiving Sellers**" means Mr. Brent Miller, Mr. Craig Adamson, Mr. James Adamson, Mr. Scott DeBo and who shall each receive the number of Consideration Shares shown in the Apportionment of Purchase Price Schedule.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"**Sellers Accounts**" means the account of each of the Sellers designated in Schedule 9 hereto and which all payments due to each of the Sellers shall be made into by the Buyer.

"**Sellers' Warranties**" means the warranties given to the Buyer by the Principal Sellers and which are set forth in Section 7 and Schedule 5 hereof and "**Sellers' Warranty**" means any of them.

"Subsidiary" in relation to a company (the holding company), any other company in which the holding company (or a person acting on its behalf) directly or indirectly holds or controls either: (a) a majority of the voting rights exercisable at general meetings of the company; or (b) the right to appoint or remove directors having a majority of the voting rights exercisable at meetings of the board of directors of the company; and any company which is a Subsidiary of another company is also a Subsidiary of that company's holding company. Unless the context otherwise requires, the application of the definition of Subsidiary to any company at any time shall apply to the company as it is at that time.

"Tax Claim": means any assessment (including self-assessment), notice, demand, letter or other document issued or action taken by or on behalf of any Regulatory Authority.

"**Tax Return"** means any and all returns, reports, filings, declarations and statements relating to Taxes that are required to be filed, recorded, or deposited with any Regulatory Authority, including any attachment thereto or amendment thereof.

"**Taxes"** means any federal, state, county, local, foreign or other tax, charge, imposition or other levy (including interest or penalties thereon) including without limitation, income taxes, estimated taxes, excise taxes, sales taxes, use taxes, gross receipts taxes, franchise taxes, taxes on earnings and profits, employment and payroll related taxes, property taxes, real property transfer taxes, Federal Insurance Contributions Act taxes, any taxes or fees related to unclaimed property, taxes on value added and import duties, whether or not measured in whole or in part by net income, imposed by the United States or any political subdivision thereof or by any jurisdiction other than the United States or any political subdivision thereof.

"Transaction": means the transaction contemplated by this Agreement or any part of that transaction.

"**Unaccredited Sellers**" means Mr. Jason Martin, Mr. Lynn Thomas, Mr. Robert Weaver and Mr. Jim Decker and for which the sale and purchase of each of their minority holdings in the Company are governed by the Unaccredited Stock Purchase Agreement.

"**Unaccredited Stock Purchase Agreements**" shall mean the stock purchase agreements entered into between Buyer and each of the Unaccredited Sellers of even date for the purchase of such Unaccredited Seller's Shares.

1.2. Section and Schedule headings do not affect the interpretation of this Agreement.

1.3. **A person** includes a corporate or unincorporated body.

1.4. Words in the singular include the plural and in the plural include the singular, except where the context would indicate otherwise.

1.5. A reference to one gender includes a reference to the other gender.

1.6. A reference to a law is a reference to it as it is in force for the time being taking account of any amendment, extension, application or re-enactment and includes any subordinate legislation for the time being in force made under it.

1.7. **Writing** or **written** includes faxes but not e-mail.

1.8. Documents in **agreed form** are documents in the form agreed by the Parties to this Agreement and initialed by them for identification.

SECTION 2: CONDITIONS

2.1. Closing of this Agreement is subject to the Conditions in Schedule 2 being satisfied up to and including the Closing Date or waived by the date and time provided in Section 2.4; and

2.2. If any of the Conditions have not been satisfied or waived by the date and time provided in Section 2.1 and Section 2.4, this Agreement shall cease to have effect immediately after that time on that date except for the provisions mentioned in Section 2.3.

2.3. These provisions shall survive any termination under 2.2:

(a) Section 1 (Interpretation);

(b) Section 2 (Conditions);

(c) Section 17 (Confidentiality and announcements);

(d) Section 20 (Whole agreement);

(e) Section 21 (Variation and waiver);

(f) Section 22 (Costs);

(g) Section 23 (Notice); and

(h) Section 27 (Governing law and jurisdiction).

2.4. The Sellers and the Buyer shall use all commercially reasonable endeavors so far as lies within their respective powers to procure that the Conditions are satisfied as soon as practicable and in any event no later than Close of Business:

(a) December 15, 2006; or

(b) such later time and date as may be agreed in writing by the Seller and Buyer.

2.5 The Buyer and the Sellers shall co-operate fully in all commercially reasonable actions necessary to procure the satisfaction of the Conditions, including, but not limited to, the provision by all Parties of all information reasonably necessary to make any notification or filing (that the Buyer reasonable deems to be necessary) or as requested by any relevant authority, and keeping all Parties informed of the progress of any notification or filing and providing such assistance as may reasonably be required.

SECTION 3: SALE AND PURCHASE OF SHARES

3.1. On the terms of this Agreement the Sellers shall sell and the Buyer shall buy with effect from Closing the Shares.

3.2. Each Seller represents and warrants that he:

(a) has the right to sell the Shares on the terms set out in this Agreement;

(b) shall deliver full legal and beneficial title to the Shares; and

(c) sells the Shares free from all Encumbrances other than Permitted Encumbrances.

3.3. Each Seller waives any right of pre-emption or other restriction on transfer in respect of the Shares or any of them conferred on him under the articles of incorporation (including any articles of amendment) of the Company or otherwise and shall procure (and produce as part of the Closing Documents) the irrevocable waiver of any such right or restriction conferred on any other person who is not a party to this Agreement.

3.4. The Principal Sellers represent and warrant that (i) there is no right to require the Company to issue any share capital and no Encumbrance affecting any unissued shares or debentures or other unissued securities of the Company, and (ii) there is no commitment which has been given to create an Encumbrance affecting any unissued shares or debentures or other unissued securities of the Company, and (iii) there is no commitment of the Company to issue ay share capital and no person has claimed any rights in connection with any of those things.

3.5. Each Seller represents and warrants that no commitment has been given to create an Encumbrance affecting his Shares.

3.6. Each of the Seller's representations and warranties under this Section 3 are made severally and not jointly.

3.7. The Shares are sold with all rights that attach, or may in the future attach, to them (including, in particular, the right to receive all dividends and distributions declared, made or paid on or after the date of this agreement).

3.8. The Buyer is not obliged to complete the purchase of any of the Shares unless the purchase of all the Shares is completed simultaneously.

SECTION 4: CONSIDERATION

4.1. The Purchase Price for the Shares:

(a) Seven Hundred and Forty Thousand (740,000) United States Dollars at Closing Date in cleared funds in each of the Sellers' Accounts and payment made in accordance with this Section shall constitute a valid discharge of the Buyer's obligations under this Section 4.2;

(b) Six Hundred and Forty Seven Thousand Five Hundred (647,500) United States Dollars which shall be payable in full 12 months from the Closing Date pursuant to the terms of the Promissory Note and secured against the Shares pursuant to the terms of a Pledge Agreement in substantially the same form as is set forth in Exhibit 4.1(b) (Pledge Agreement);

(c) The allotment and issue the Consideration Shares to the Share Receiving Sellers at Closing Date in such amounts set forth on the Apportionment of Purchase Price Schedule; and

4.2. Until the Deferred Cash Consideration is satisfied in full, the Buyer shall issue to each Seller a Promissory Note for the Deferred Cash Consideration and grant a security interest in or over the Shares in favor of the Sellers to secure the Deferred Cash Consideration on terms and conditions substantially similar to those set out in the Pledge Agreement.

4.3. The Buyer shall procure or cause that the Consideration Shares to be allotted and issued to the Share Receiving Sellers or their nominees on Closing Date. The Share Receiving Sellers agree and acknowledge that Consideration Shares to be allotted and issued pursuant to Section 4.1 (c) shall be subject to the restrictions on transfer set forth in Section 13.

SECTION 5: CASH CONSIDERATION CONDITIONS

5.1. The assumption on which the Cash Consideration is based is that at Closing Date the Company shall have Cash equal or greater than US$200,000 ("Closing Cash Consideration Condition").

5.2. The Closing Cash Consideration Condition shall be ascertained from the Company's Bank Account at Closing Date and the Sellers shall at Closing Date produce a bank statement showing the closing cash balance.

5.3. In the event that the Closing Cash Consideration Condition is not satisfied at Closing, the Cash Consideration shall be adjusted on a dollar-for-dollar basis.

SECTION 6: CLOSING

6.1. Closing shall take place on the Closing Date:

(a) at the offices of Seller's lawyers; or

(b) at any other place agreed in writing by the Seller and the Buyer.

6.2. **Closing Date** means December 15, 2006 but, if the Conditions in Schedule 2 have not been satisfied or waived in accordance with Section 2 on or before that date, then (a) the second Business Day after they are all satisfied or waived; or (b) any other date agreed in writing by the Sellers and the Buyer.

6.3. The Sellers undertake to the Buyer that the business of the Company shall be conducted in the manner provided for in Schedule 3 from the date of this Agreement until Closing and gives the Buyer the undertakings set out in that Schedule.

6.4. At Closing the Sellers shall:

(a) transfer the Shares in such form as is necessary for the Buyer to establish legal ownership in accordance with the applicable laws of the United States including federal and state law;

(b) deliver a certified copy of the resolution adopted by the Board of the Company authorizing the Transaction and the execution and delivery by the officers specified in the resolution of this Agreement, any documents necessary to transfer the Shares in accordance with Section 6.4(a) and any other documents referred to in this Agreement;

(c) deliver all other documents and instruments (in their proper form) identified in the Closing Agenda as documents to be delivered by the Seller at Closing; and

(d) procure that a Board meeting and a Shareholder meeting of the Company is held at which the business identified for that meeting in the Closing Agenda is conducted.

6.5. At Closing the Buyer shall:

(a) pay the Cash Consideration in clear funds into each of Sellers Account by wire transfer or other immediately available funds. Payment made in accordance with this Section shall constitute a valid discharge of the Buyer's obligations with respect to the Cash Consideration;

(b) deliver a certified copy of the resolution adopted by the board of directors of the Buyer authorizing the Transaction and the execution and delivery by the officers specified in the resolution of this Agreement, and any other documents referred to in this Agreement as being required to be delivered by it;

(c) cause the allotment and issue of the Consideration Shares to each of the Share Receiving Sellers;

(d) deliver each Promissory Note to each of the Sellers; and

(e) deliver all other documents and instruments (in their proper form) identified in the Closing Agenda as documents to be delivered by the Buyer at Closing.

6.6. If, on or before December 15, 2006, the Sellers or the Buyer do not comply with Section 6.4. or 6.5, respectively, in any material respect then the Buyer or the Sellers may, without prejudice to any other rights it has:

(a) proceed to Closing; or

(b) defer Closing to a date no more than 28 days after the date on which Closing would otherwise have taken place; or

(c) rescind this Agreement.

6.7. The Parties may defer Closing under Section 6.6 only once, but otherwise Section 6.6 applies to a Closing deferred under that Section as it applies to a Closing that has not been deferred. Notwithstanding anything to the contrary contained in this Agreement, if the Closing has not occurred on or before January 12, 2007, then either party may terminate this Agreement and all obligations of the parties hereunder shall terminate and be of no further force and effect; provided, however, the failure to close on or before such date is no a direct result of the intentional misconduct of the terminating party.

6.8. As soon as practicable after Closing, the Seller shall send to the Buyer (at the Buyer's registered office for the time being) all records, correspondence, documents, files, memoranda and other papers relating to the Company, not otherwise required to be delivered at Closing under this Agreement, which are not kept at the Leasehold Property.

SECTION 7: REPRESENTATIONS AND WARRANTIES

7.1. The Buyer enters into this Agreement on the basis of, and in reliance on, the Sellers Warranties set out in this Agreement and Schedule 5.

7.2. The Sellers enter into this Agreement on the basis of, and in reliance on, the Buyer's Warranties set out in this Agreement.

7.3. Each Seller warrants and represents to the Buyer that each Seller Warranty made by such Seller is true and not misleading on the date of this Agreement except as Disclosed in the Seller Disclosure Schedules and the Buyer warrants and represents to the Sellers that each Buyer Warranty is true and not misleading on the date of this Agreement except as Disclosed.

7.4. The Sellers Warranties and the Buyer Warranties are deemed to be repeated at Closing and any reference made to the date of this Agreement (whether express or implied) in relation to any Seller Warranty or Buyer Warranty shall be construed, in relation to any such repetition, as a reference to Closing.

7.5. The Sellers shall ensure that the they and the Company, do not do or omit to do anything which would, at any time before or at Closing, be materially inconsistent with any of the Sellers Warranties, breach any Sellers' Warranty or make any Sellers' Warranty untrue or misleading.

7.6. The Buyer shall ensure that the Buyer does not do or omit to do anything which would, at any time before or at Closing, be materially inconsistent with any of the Buyer Warranties, breach any Buyer Warranty or make any Buyer Warranty untrue or misleading.

7.7. Buyer and Seller are entitled to amend and revise the Buyer Disclosure Schedules and Seller Disclosure Schedules, respectively, prior to Closing.

7.8. If at any time before or at Closing the Buyer or Seller becomes aware that a Sellers' Warranty or a Buyer's Warranty, respectively, has been breached, is untrue or is misleading, or has a reasonable expectation that any of those things might occur, it must immediately:

(a) notify the other party in sufficient detail to enable the such party to make an accurate assessment of the situation; and

(b) if requested by such other party, use its best endeavors to prevent or remedy the notified occurrence.

7.9. If at any time before or at Closing it becomes apparent that (i) a Sellers' Warranty has been breached, is untrue or misleading (ii) Buyer is dissatisfied with the final form of Sellers Disclosure Schedules, or (iii) that the Sellers have breached any term of this Agreement that in any case is, in Buyer's discretion, material to the sale of the Shares, the Buyer may:

(a) rescind this Agreement by notice to the Sellers; or

(b) waive such breached, untruthful or misleading Sellers' Warranty and proceed to Closing.

7.10 If at any time before or at Closing it becomes apparent that (i) a Buyer Warranty has been breached, is untrue or misleading, (ii) Seller is dissatisfied with the final form of Buyer's Disclosure Schedules, or (iii) that the Buyer has breached any term of this Agreement that in any case is, in Sellers' discretion, material to the repayment of the Promissory Note or value of the Consideration Shares, the Sellers may:

(a) rescind this Agreement by notice to the Buyer; or

(b) waive such breached, untruthful or misleading Buyer Warranty and proceed to Closing.

7.11 Each of the Seller's Warranties and Buyers Warranties is separate and, unless specifically provided, is not limited by reference to any other Seller's Warranty or Buyer Warranty or anything in this Agreement.

SECTION 8: INDEMNIFICATION

8.1. From and after the Closing, the Buyer and the Sellers (in such capacity, an "**Indemnitor**") shall, subject to the limitations hereof, reimburse, indemnify and hold harmless each other party (in such capacity, an "**Indemnitee**") and their respective officers, directors, employees, agents, representatives, and successors and assigns from and against and in respect of any and all reasonably incurred out-of-pocket damages, losses, deficiencies, liabilities, claims, demands, charges, costs and expenses of every nature and character whatsoever, including, without limitation, reasonable attorneys' fees and costs (collectively, the "**Losses**") that result from, relate to or arise out of:

(a) any misrepresentation or breach of Warranty (Sellers or Buyers Warranty) of the Indemnitor in this Agreement; and

(b) unless otherwise unconditionally waived by the Indemnitee in accordance with the provisions set forth in this Agreement, the failure of the Indemnitor to perform any agreement or covenant on its part required to be performed on or after the Closing Date.

8.2. Subject always to the provisions of Section 8.4, the sum of all Losses (except where such Losses arise from indemnification arising under Section 17.3 (Taxes) of Schedule 5) incurred by the Indemnitee in the aggregate must exceed $10,000 before such Party shall be entitled to indemnification hereunder; provided, however, once such Losses exceed $10,000, such party shall be entitled to indemnification for all Losses provided further that, except as provided in Section 19.3, the total liability of Indemnitor for such losses shall not exceed an amount equal to the sum of the Cash Consideration, Deferred Consideration, and the Consideration Shares; provided, however, that in no event shall the total liability of any individual Seller Indemnitor for such losses exceed that portion of the Purchase Price actually received by such Seller in cash or shares of C.O.G. (whether received from the Cash Consideration, Deferred Consideration or the Consideration Share). Seller Indemnitors' liability for any Losses shall be recovered first by cancellation of the Consideration Shares, second by a Set-Off if such Set-Off is permitted under Section 8.5, and last from the Indemnitors. For purposes of this Section 8.2, only, the Consideration Shares shall be deemed to have a value of the greater of (i) $1.00 and (ii) the average trading price over the ten-day period immediately preceding the date that the indemnification payment obligation becomes due and payable to Indemnitee as reported by the Pink Sheets or other exchange on which shares of C.O.G. common stock are trading.

8.3. All of the representations and warranties of the Parties contained herein shall expire 12 months after the Closing Date, except for the representations and warranties set out in Sections 3.2 through to 3.6, inclusive, (Sale and Purchase of Shares) and paragraph 5 of Schedule 5 ("Capitalization Warranties), which shall survive indefinitely and Section 12 (Tax Undertakings) and paragraph 17 of Schedule 5 (Taxes), which shall survive until the applicable statute of limitations has expired. Accordingly, no Indemnitor shall have any liability or indemnification pursuant to this Agreement in respect of claims asserted against it after the foregoing indemnification periods have expired.

8.4. The Indemnitee shall notify the Indemnitor promptly after becoming aware of, and shall provide to the Indemnitor as soon as practicable thereafter all information and documentation reasonably necessary to support and verify any Losses that the Indemnitee shall have determined to have suffered or incurred or may suffer or incur under a claim for indemnification hereunder. Indemnitor shall either accept or reject Indemnitee's assertion of Losses in writing within 30 business days of receipt of Indemnitee's notice. In the event Indemnitor does not accept or reject the assertion of Losses within such 30-business day period then Indemnitor shall be deemed to have accepted Indemnitee's assertion of Losses. Notwithstanding the foregoing, the failure to so notify the Indemnitor shall not relieve the Indemnitor of any Liability that it may have to any Indemnified Party, except to the extent that the Indemnitor demonstrates that it is prejudiced by the Indemnitee's failure to give such notice. The obligations of an Indemnitor will not apply to any claim for indemnification by an Indemnitee of which the Indemnitor does not receive notice prior to the end of the applicable survival period as described in Section 8.3.

8.5 Set-Off Rights. In addition to such other rights, powers and remedies that Buyer may have under law or at equity, Buyer shall be entitled to set-off any amounts owed by Buyer to Sellers under this Agreement or any other agreements entered into between Buyer and Sellers including the Promissory Notes,, against any amounts owed by Sellers to a Buyer as an Indemnitee, *provided* Buyer has (i) provided notice to Sellers of the Losses in accordance with Section 8.4 above and Seller has acknowledged and accepted the Losses in writing (or failed to respond in writing in the designated time period), or (ii) Buyer has been awarded such Losses by a court of competent jurisdiction. Buyer shall not otherwise be entitled to set off any amounts under the Promissory Notes for any reason.

8.6 Procedure for Indemnification - Third Party Claims.

(a) Upon receipt by an Indemnitee of notice of the commencement of any Proceeding by a third party that is not an affiliate or a member of Indemnitee's Group (a "Third Party Claim") against it or a written threat, such Indemnitee shall, if a claim is to be made against an Indemnitor under this Section 8, give notice to the Indemnitor of the commencement of such Third Party Claim as soon as practicable, but in no event later than ten (10) days after the Indemnitee shall have been served or received such written threat, but the failure to so notify the Indemnitor shall not relieve the Indemnitor of any Liability that it may have to any Indemnitee, except to the extent that the Indemnitor demonstrates that the defense of such Third Party Claim is prejudiced by the Indemnitee's failure to give such notice.

(b) If a Third Party Claim is brought or threatened against an Indemnitee and it gives proper notice to the Indemnitor of the commencement of such Third Party Claim, the Indemnitor will be entitled to control the defense and settlement of such Third Party Claim (unless the Indemnitor fails to provide reasonable assurance to the Indemnitee of the Indemnitor's financial capacity to defend such Third Party Claim and provide indemnification in accordance with this Section 7 with respect to such Third Party Claim) and, to the extent that it elects to assume the control of the defense and settlement of such Third Party Claim with counsel satisfactory to the Indemnitee (who shall not unreasonably withhold or delay confirmation that it is satisfied with such counsel) and provides notice to the Indemnitor of its election to assume the defense and control of such Third Party Claim, the Indemnitor shall not, as long as it legitimately conducts such defense or settlement, be liable to the Indemnitee under this Section 8 for any fees of other counsel or any other expenses with respect to the defense or settlement of such Third Party Claim, in each case subsequently incurred by the Indemnitee in connection with the defense or settlement of such Third Party Claim, other than reasonable costs of investigation.

If the Indemnitor assumes control of the defense and settlement of a Third Party Claim, (i) it shall be conclusively established for purposes of this Agreement that the claims made in such Third Party Claim are within the scope of and subject to indemnification; (ii) no compromise, discharge or settlement of, or admission of Liability in connection with, any claims and binding on the Indemnitee may be effected by the Indemnitor without the Indemnified Party's written consent unless (A) there is no finding or admission of any violation of Law or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnitee, and (B) the sole relief or settlement provided is monetary damages or payments that are paid in full by the Indemnitor, (iii) the Indemnitee shall have no Liability with respect to any compromise or settlement of such claims effected without its written consent, and (iv) the Indemnitee shall cooperate in all reasonable respects with the Indemnitor in connection with such defense, and shall have the right to participate, at the Indemnitee's sole expense, in such defense and settlement, with counsel selected by it. If proper notice is given to an Indemnitor of the commencement of any Third Party Claim and the Indemnitor does not, within ten (10) days after the Indemnitee's notice is given, give notice to the Indemnitee of its election to assume control of the defense and settlement of such Third Party Claim, the Indemnitor shall be bound by any determination made in such Third Party Claim or any compromise or settlement effected by the Indemnitee, provided that the Indemnitor acts reasonably and in good faith. The Indemnitee must mitigate damages and liability with respect to Third Party Claims. The Indemnitor does not guarantee settlement and has no obligation to settle.

8.7.1. No liability shall arise to the extent that it relates to matters Disclosed by either of the Parties in the Disclosure Schedule or any matter specifically and fully provided for in the Financial Statements (including the notes thereto) or matters disclosed by the Buyer in the Buyer's Disclosure Schedule.

8.8 **EXCEPT IN THE CASE OF WILLFUL MISCONDUCT OR FRAUD, NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IN NO EVENT SHALL ANY PARTY BE LIABLE FOR ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL, INDIRECT OR PUNITIVE DAMAGES.**

8.9 Except in the case of willful misconduct or fraud, notwithstanding anything to the contrary herein, indemnification pursuant to this Section 8 shall constitute the sole and exclusive remedy of Buyer, Sellers and C.O.G. under this Agreement and the certificates, documents and instruments delivered in connection herewith. Except in the case of fraud, except for the remedies referred to in the foregoing sentence, each party hereby waives, to the fullest extent permitted under applicable law, any and all remedies it may have against the others or any affiliates relating to the subject matter of this Agreement, whether arising under or based upon any foreign, Federal, state, regional or local statute, ordinance, judgment, ruling or regulations, or arising under or based upon common law or otherwise. Except for any set-off rights that may exist pursuant to Section 8.5, this section does not excuse full and timely payment of the Purchase Price

SECTION 9: TAX CHARACTERIZATION

9.1. Any payment made pursuant to the indemnification provisions (Section 8) or the Tax Undertakings provisions (Section 12) shall be treated by each of the parties hereto as an adjustment to the Purchase Price paid by the Buyer for the Shares for all Tax and financial accounting purposes. The Parties hereto agree to account for the transactions contemplated herein in a manner consistent with all the provisions of this Agreement when filing their respective Tax Returns and the Tax Return of the Company.

SECTION 10: LEASEHOLD PROPERTY

10.1. The Parties agree that the sale and purchase of the Shares is conditional upon the Buyer and the Company at Closing Date being entitled to use the Leasehold Property and the Sellers shall cause or procure that a New Lease is entered into between the Company and Deep Seas Associates and appropriate waivers (in a form and substance satisfactory to the Buyer) of all past breaches of the existing Lease Agreement be given as a Closing Condition.

10.2. The Parties agree that in the event that the Stock Purchase Agreement cannot be consummated for whatever reason, the Buyer assumes no liability to the Sellers or the Deep Seas Associates under the New Lease.

SECTION 11: EMPLOYMENT AGREEMENTS

11.1. On Closing Mr. Brent Miller shall enter into the Employment Agreement with the Company in a substantially the form attached hereto as Exhibit 11.1.

11.2. In consideration for the grant of the option in the C.O.G. shares specified in the Option Agreements set out in Schedule 11.2(a) on Closing Mr. Scott DeBo shall enter into the Employment Agreement with the Company in substantially in the form attached hereto as Exhibit 11.2(b).

11.3. The Parties agree that in the event that the Stock Purchase Agreement cannot be consummated for whatever reason, the Buyer assumes no liability to Mr. Brent Miller or the Key Employee in connection with any of the agreements contemplated in this Section.

SECTION 12: TAX UNDERTAKINGS

12.1. Transfer Taxes

(a) Any transfer taxes incurred by Sellers in connection with the sale of the capital stock of the Company to the Buyer pursuant to this Agreement shall be borne by Sellers.

(b) The Sellers shall prepare and file, at their own expense, all necessary tax returns and other documentation with respect to all such transfer taxes.

12.2. Liability for Taxes prior to Closing Date and filing of Tax Returns

(a) The Sellers covenant with the Buyer to repay to the Buyer any Taxes which are due but are unpaid at Closing and for which no provision is made in the Financial Statements of the Company. Except for taxes referenced in Section 12.1, The Sellers shall not be responsible for any taxes due after Closing.

(b) To the extent that any corporation tax returns of the Company have not been filed when due prior to the Closing ("**Pre-Closing Tax Returns**"), the Sellers shall have caused such tax returns and any assessments due to be filed and paid to the Regulatory Authorities before Closing. If the Pre-Closing Tax Returns have not been filed prior to the Closing, the Buyer shall procure that the Company, at the Sellers' cost and expense, afford such access to its books, accounts and records as is necessary and reasonable to enable the Sellers or their duly authorized agent to prepare the Pre-Closing Tax Returns of the Company and conduct matters relating to them in accordance with this Section 12. Sellers shall be responsible for any late filing penalties incurred as a result of filing Pre-Closing Tax Returns after the Closing.

SECTION 13: RESTRICTIONS ON TRANSFER

13.1. Each of the Consideration Shares shall rank pari passu with the existing common stock of $0.001 par value each in the capital of C.O.G including the right to receive all dividends declared made or paid after Closing (save that they shall not rank for any dividend or other distribution of C.O.G declared made or paid by reference to a record date before Closing Date).

13.2 Each of the acknowledgements, agreements, representations and warranties made by Shares Receiving Sellers under this Section 13 are made severally and not jointly.

13.3 Each of the Shares Receiving Sellers (i) understands and acknowledges that the Consideration Shares have not been registered under the Securities Act, or under any state securities laws, and are being exchanged in reliance upon federal and state exemptions for transactions not involving a public offering, (ii) is acquiring the Consideration Shares solely for his own account for investment purposes, and not with a view towards the resale or distribution thereof or with any present intention of offering or selling any of the Consideration Shares in a transaction that would violate the Securities Act or the securities laws of Utah or any other state of the United States or any other applicable jurisdiction, (iii) is an "accredited investor", as such term is defined under Rule 501(a) of the Securities Act or is a sophisticated investor with such knowledge and experience in business and financial matters to evaluate the merits and risks inherent in holding the Consideration Shares, (iv) has received certain information concerning the Buyer (specifically those subject to the confidentiality agreement between the Parties dated October 24, 2006 and has had the opportunity to obtain such financial and additional information and ask such questions of representatives of the Buyer as desired in order to evaluate the merits and the risks inherent in holding the Consideration Shares bearing in mind that the Issuer's shares are traded on the Pink Sheets, and to verify the accuracy of any information that is provided to the Sellers pursuant to this Section 13, and (v) is able to bear the economic risk and lack of liquidity inherent in holding the Consideration Shares which have not been registered under the Securities Act.

13.4. Each of the Shares Receiving Sellers acknowledges and agrees that they will not, upon receipt of the Consideration Shares to be received by him in exchange for the Shares held by him, offer, sell, pledge or otherwise transfer or dispose of any of the Consideration Shares except (i) as permitted by, and in accordance with, an exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel if the Buyer so requests) or (ii) pursuant to an effective registration statement under the Securities Act, and, in each case, in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction. The Seller understands that the registrar and transfer agent will not be required to accept for registration of transfer any of the Consideration Shares except upon presentation of evidence reasonably satisfactory to the Buyer that the foregoing restrictions on transfer have been complied with.

13.5. Each of the Shares Receiving Sellers acknowledges and agrees that the Buyer may issue stop transfer instructions to its registrar and transfer agent with respect to the Consideration Shares to be received by him in exchange for the Shares in the event that he attempts to transfer such shares in violation of this Agreement and that a restrictive legend will be placed on the certificates delivered to him evidencing the Consideration Shares in substantially the following form:

> "**This certificate and the shares represented hereby have been issued pursuant to a transaction exempt from registration under the Securities Act of 1933, as amended and may not be sold or otherwise disposed of unless registered under the Securities Act pursuant to a registration statement in effect at the time or unless the proposed sale or disposition can be made without registration in reliance upon an exemption from the registration requirements promulgated under the Securities Act**."

13.6. Each of the Shares Receiving Sellers acknowledges that, except as otherwise provided in Section 14 of this Agreement, the Buyer is under no obligation to register the sale, transfer, pledge or other disposition of the Consideration Shares to be received by him or to take any exemption from registration available.

13.7. Each of the Shares Receiving Sellers hereby severally and not jointly covenants to the Buyer that he will not transfer, sell, assign, pledge, hypothecate or otherwise dispose of or encumber any of the Consideration Shares in violation of U.S securities laws.

SECTION 14: REGISTRATION RIGHTS FOR THE CONSIDERATION SHARES

14.1. The Buyer shall procure that C.O.G shall file a registration statement with the Commission on Form SB-2 or on such other form as is available on or around, but no later than, one hundred and thirty-five (135) days after the Closing Date. The Buyer shall cause the C.O.G to use its commercially reasonable best efforts to promptly respond to any Commission comments or questions regarding the Registration Statement and cause such Registration Statement to go effective as soon thereafter as reasonably practicable, but in any event on or before June 21, 2007 (the "Registration Deadline"). In the event C.O.G. does not meet the Registration Deadline, Buyer shall cause C.O.G to pay to Sellers $7,500 for each thirty (30) day period that elapses (each a "Penalty Payment"). The first three Penalty Payments shall be payable in the form of 7,500 shares of C.O.G.'s common stock. All subsequent Penalty Payment shall be payable cash or other immediately available funds. . A Penalty Payment shall be due and payable on or before the fifth business day following each such thirty-day period. In no event shall C.O.G. be required to make more than eighteen (18) penalty payments.

SECTION 15: LOAN ACCOUNTS AND GUARANTEES

15.1. Except as Disclosed on the Seller Disclosure Schedules, the Sellers shall procure that on Closing Date:

(a) all indebtedness due from the Sellers to the Company is satisfied in full;

(b) all indebtedness due from any officer of the Company is satisfied in full;

(c) all indebtedness due from the Company to any officer of the Company is satisfied in full.

(d) all indebtedness due from any of the Company to the Sellers is satisfied in full.

15.2. All guarantees (with the exception of guarantees given by the Company in connection with the sale of its products and in the ordinary course of their businesses) are Disclosed in the Seller Disclosure Schedules.

15.3. Except as is provided in the Disclosure Schedules and with the exception of guarantees given by the Company in connection with the sale of its products and in the ordinary course of its business, the Seller shall procure that on Closing the Company is released from all guarantees and indemnities given by it.

15.4. The Buyer shall use reasonable endeavors to procure that as from the Closing Date the Sellers are released from any guarantees and indemnities given by him in respect of the lawful obligations of the Company and of which full particulars are contained in the Sellers Disclosure Letter and pending its release the Buyer shall indemnify the Sellers against all liabilities under those guarantees and indemnities.

SECTION 16: PENSIONS

16.1. The pension arrangements relating to the Company are Disclosed in the Disclosure Schedule.

16.2. Except as is Disclosed in the Disclosure Schedule, the Company does not operate or has not agreed to operate any other pension scheme for any present or past directors, employees or their dependants or other officers of the Company and the Company is not liable for any payments or benefits under any such scheme(s).

16.3. The Sellers Disclosure Schedule contains details of the basis upon which the Company has undertaken to contribute to the Disclosed pension scheme/arrangement and no amount due by a Company under such a scheme remains unpaid at Closing Date.

16.4. All employers' contributions under the pension schemes are on Closing Date up to date and no amounts are due or outstanding at Closing except such amounts that are due for the month in which Closing occurs.

16.5. Except for the retirement annuity obligation of the Company to employee Dale R. Kendall, the terms of such obligations are set forth in the Seller Disclosure Schedule, there is no other retirement annuity obligations owed or committed to by the Company.

SECTION 17: CONFIDENTIALITY AND ANNOUNCEMENTS

17.1. The Sellers undertakes to the Buyer to keep confidential the terms of this Agreement and all information about the Buyer's Group (as the Group is constituted immediately before Closing) and about the Company before Closing, and use the information only for the purposes contemplated by this Agreement. The Sellers each acknowledge that the terms of the confidentiality agreement signed by them and the Buyer remain in full force and effect until when such information is no longer confidential according to the terms of the said Confidentiality Agreement.

17.2 The Buyer undertakes to the Sellers to keep confidential the terms of this Agreement and all information that it has acquired about the Sellers and to use the information only for the purposes contemplated by this Agreement to the extent such terms have not been publicly disclosed.

17.3. Neither party is required to keep confidential or to restrict its use of:

(a) knowledge of the existence of this Agreement after Closing; or

(b) information that is or becomes public knowledge other than as a direct or indirect result of the information being disclosed in breach of this Agreement; or

(c) information that the Parties agree in writing is not confidential; or

(d) information about the other party's Group or the Company that it finds out from a source not connected with that Group or the Company and that it has acquired free from any obligation of confidence to any other person.

17.4. The Buyer does not have to keep confidential or restrict its use of:

(a) information about the Company after Closing; or

(b) information that is known to the Buyer before the date of this Agreement and that it has acquired free from any obligation of confidence to any other person.

17.5. The Sellers do not have to keep information about the Company confidential or restrict its use of that information if the Conditions have not been satisfied or waived by the date and time provided in Section 2.

17.6. Either Party may disclose any information that it is otherwise required to keep confidential under this Section:

(a) to such employees, professional advisers, consultants, or officers of its Group as are reasonably necessary to advise on this Agreement, or to facilitate the Transaction, if the disclosing party procures that the people to whom the information is disclosed keep it confidential as if they were that party; or

(b) with the other party's written consent; or

(c) to confirm that the sale has taken place and the date of the sale (but without otherwise revealing any other terms of sale or making any other announcement); or

(d) to the extent that the disclosure is required:

(i) by law; or

(ii) by a Regulatory Authority; or

(iii) to make any filing with, or obtain any authorization from, a regulatory body, tax authority or securities exchange; or

(iv) under any arrangements in place under which negotiations relating to terms and conditions of employment are conducted; or

(v) to protect the disclosing party's interest in any legal proceedings, but at all times shall use reasonable endeavors to consult the other party and to take into account any reasonable requests it may have in relation to the disclosure before making it.

17.7. Each Party shall supply the other with any information about itself, its Group or this Agreement as the other may reasonably require for the purposes of satisfying the requirements of a law, regulatory body or securities exchange to which the requiring party is subject.

17.8. This Section shall continue to have effect for the period of 2 years from the Closing Date.

SECTION 18: RESTRICTIONS ON SELLERS

18.1. Each Seller severally covenants with the Buyer that he shall not:

(a) at any time during the period of 4 years for Mr. Miller and 18 months for the Key Employees beginning with the Closing Date, carry on or be employed or engaged in any business which would be in competition with any part of the Business as the Business was carried on at the Closing Date in any geographic areas in which any business of the Company was carried on at the Closing Date; or

(b) at any time during the period of 4 years for Mr. Miller and 18 months for the Key Employees beginning with the Closing Date, except for the benefit of the Company, deal in competition with the Company with any person who is or has agreed to become at the Closing Date, or who has been at any time during the period of 12 months immediately preceding that date, a client or customer of the Company; or

(c) at any time during the period of 4 years for Mr. Miller and 18 months for the Key Employees beginning with the Closing Date, except for the benefit of the Company canvass, solicit or otherwise seek to deal (in competition with the Company) with any person who is a customer of the Company at the Closing Date or who was at any time during the period of 12 months immediately preceding that date, a client or customer of the Company; or

(d) at any time during the period of 4 years for Mr. Miller and 18 months for the Key Employees beginning with the Closing Date:

(i) offer employment to, enter into a contract for the services of, or attempt to entice away from the Company any individual who is at the time of the offer or attempt, and was at the Closing Date, employed in an executive or managerial position with the Company; or

(ii) procure or facilitate the making of any such offer or attempt by any other person; or

(e) at any time during the period of three years beginning with the Closing Date, use in the course of any business:

(iii) any trade or service mark, business or domain name, design or logo which, at Closing, was or had been used by the Company; or

(iv) anything which is, in the reasonable opinion of the Buyer, capable of confusion with such words, mark, name, design or logo; or

(f) at any time during a period of four years for Mr. Miller and one year for Key Employees beginning with the Closing Date, except for the benefit of the Company, solicit or entice away from the Company any supplier to the Company who had supplied goods and/or services to the Company during the 12 months immediately preceding the Closing Date, if that solicitation or enticement causes or would cause such supplier to cease supplying, or materially reduce its supply of, those goods and/or services to the Company.

(g) The covenants in Section 18 are intended for the benefit of the Buyer and the Company and apply to actions carried out by the Sellers in any capacity except for such actions taken by the Sellers which are taken solely for the benefit of the Buyer and the Company pursuant to the terms of the service agreements entered into pursuant to Section 18.

(h) Each of the covenants in this Section 18 is a separate undertaking by each Seller in relation to himself and his interests and shall be enforceable by the Buyer separately and independently of its right to enforce any one or more of the other covenants contained in Section 18. The Sellers each acknowledge the adequacy of the consideration provided by the Buyer for each of the covenants contained in this Section 18 and each of the covenants in Section 18 is considered fair and reasonable by the parties, but if any restriction is found to be unenforceable, such Section would be valid if any part of it were deleted or the period or area of application reduced, the restriction shall apply with such modifications as may be necessary to make it valid and enforceable.

SECTION 19: ASSIGNMENT

19.1. Except as provided otherwise, no person shall assign, or grant any Encumbrance or security interest over, any of its rights under this Agreement or any document referred to in it.

19.2. Each person that has rights under this Agreement is acting on its own behalf.

19.3. The Buyer may assign its rights under this Agreement (or any document referred to in the Agreement) to a member of its Group or to any person to whom it transfers the Shares.

19.4 If there is an assignment:

(a) the Sellers shall discharge its obligations under this Agreement to the assignor until it receives notice of the assignment;

(b) the assignee may enforce this Agreement as if it were a party to it, but the Buyer shall remain liable for any obligations under the Agreement;

(c) the liability of the Sellers to any assignee cannot be greater than its liability to the Buyer; and

(d) the Buyer shall remain the primary responsible party for all its obligations under this Agreement unless Sellers otherwise agree.

SECTION 20: WHOLE AGREEMENT

20.1. This Agreement, and any documents referred to in it, constitute the whole Agreement between the Parties and supersede any arrangements, understanding or previous Agreement between them relating to the subject matter they cover including but not limited to the two Letters of Intent signed between the Company and the Seller on the one hand and the C.O.G on the other and dated November 18, 2004 and February 27, 2006 except for the Confidentiality Undertaking signed by each of the Sellers regarding the use of the Buyer's disclosed information pursuant to paragraph 7 of Schedule 2.

20.2. Each party acknowledges that in entering into this Agreement, and any documents referred to in it, it does not rely on, and shall have no remedy in respect of, any statement, representation, assurance or warranty of any person other than as expressly set out in this Agreement or those documents.

20.3. Nothing in this Section operates to limit or exclude any liability for fraud.

SECTION 21: VARIATION AND WAIVER

21.1. Any variation of this Agreement shall be in writing and signed by or on behalf of all Parties.

21.2. Any waiver of any right under this Agreement is only effective if it is in writing, and it applies only to the person to whom the waiver is addressed and the circumstances for which it is given and shall not prevent the party who has given the waiver from subsequently relying on the provision it has waived.

21.3. A person that waives a right in relation to one party, or takes or fails to take any action against that person does not affect its rights against any other party.

21.4. No failure to exercise or delay in exercising any right or remedy provided under this Agreement or by law constitutes a waiver of such right or remedy or will prevent any future exercise in whole or in part thereof.

21.5. 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.

21.6. Unless specifically provided otherwise, rights arising under this Agreement are cumulative and do not exclude rights provided by law.

SECTION 22: COSTS

22.1. Unless otherwise provided, all costs in connection with the negotiation, preparation, execution and performance of this Agreement, and any documents referred to in it, shall be borne by Buyer to the extent incurred by Buyer and the Company to the extent incurred by Company and Sellers.

SECTION 23: NOTICE

23.1. A notice given under this Agreement:

(a) shall be in writing in and be sent for the attention of the person, and to the address, or fax number, given in this Section (or such other address, fax number or person as the party may notify to the others in accordance with the provisions of this Section); and

(b) shall be:

(i) delivered personally; or

(ii) sent by fax; or

(iii) sent by pre-paid post, recorded delivery or registered post; or

23.2. The addresses for service of notice are:

(a) SELLERS

(i) Brent Miller,

8455 Harvard Park Drive,
Sandy,
UT 84094

(iii) fax number: 801 905 2006

(iv) with copy to: Lisa Demmons, Esq.
Fabian & Clendenin
P.O. Box 510210
Salt Lake City, Utah 84151

(b) BUYER

CodaOctopus (US) Holdings Inc.
164 West 25th Street, 6th Floor, New York, NY10001
Attention: Jason Reid and Annmarie Gayle (or anyone who succeeds her or is holding the position of SVP Legal Division at that time)

23.3. A notice is deemed to have been received:

(a) if delivered personally, at the time of delivery; or

(b) in the case of a fax, at the time of transmission; or

(c) in the case of pre-paid post, recorded delivery or registered post, five business days from the date of posting; or

23.4. To prove service it is sufficient to prove that the notice was transmitted by fax to the fax number of the party or, in the case of post, that the envelope containing the notice was properly addressed and posted.

SECTION 24: COUNTERPARTS

24.1. This Agreement may be executed 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.

SECTION 25: SEVERANCE

25.1. If any provision of this Agreement (or part of a provision) is found by any court or administrative body of competent jurisdiction to be invalid, unenforceable or illegal, the other provisions shall remain in force.

25.2. 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 whatever modification is necessary to give effect to the commercial intention of the parties.

SECTION 26: AGREEMENT SURVIVES CLOSING

26.1. This Agreement (other than obligations that have already been fully performed) remains in full force after Closing.

SECTION 27: GOVERNING LAW AND JURISDICTION

27.1. This Agreement shall be governed by and construed in accordance with the Laws of the State of Utah.

27.2. The Parties irrevocably agree that the courts of Utah have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this Agreement.

I N WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Stock Purchase Agreement on the date first written above.

CODA OCTOPUS HOLDINGS, INC.

By: _____

Name: Jason Reid
Title: President

MILLER AND HILTON INC, D/BA COLMEK ENGINEERING SYSTEMS

By: _____

Name: Scott DeBo
Title: President

_____
Brent Miller

_____
Scott DeBo

_____
Craig Adamson

_____
James Adamson

C.O.G. acknowledges that Buyer was formed for, amongst other purposes, purchasing the Shares, and as an inducement to Seller to enter in to this Agreement, C.O.G. hereby agrees to guarantee the payment and performance of all of Buyer's obligations under this Agreement and any documents, instruments, agreements and understandings related hereto. In the event of any dispute arising out of or in connection with this guaranty, the non-prevailing party shall pay the reasonable legal fees incurred by the prevailing party in connection with such suit.

CODAOCTOPUS GROUP, INC.

By: _____

Name: Jason Reid
Title: President

Schedule 1 Particulars of the Company and directors

Name:	Miller & Hilton Inc
Trade name	Colmek Systems Engineering
Company's registration number:	689323-0142
Address	2001 South 3480 West, Salt Lake City, Utah 84104
Authorized share capital **Amount: 1000** **Divided into:**	1000 1000 shares of common stock having a par value of $1.00
Issued Share Capital immediately before Closing	402 shares of common stock having a par value of $1.00
Options in or over Company's Capital Stock immediately before Closing	None
Registered shareholders:	Mr. Brent Miller Mr. Craig Adamson Mr. James Adamson Mr. Scott DeBo Mr. Jim Decker Mr. Lynn Thomas Mr. Robert Weaver Mr. Jason Martin
Beneficial owner of Sale Shares (if different):	
Directors:	Mr. Brent Miller, Mr. Scott DeBo, Mr. Craig Adamson
Secretary:	Mr. Craig Adamson, 310 S Main Street Number 1330, Salt Lake City, Utah 84101

Schedule 2: Conditions

The Conditions to which the Agreement is subject are as follows:

1. The Sellers have procured or caused the Company to pass a resolution at a shareholders' meeting approving the sale of the Shares to Buyer.

2. The Buyer has caused a resolution at a board meeting approving the allotment and issue of the Consideration Shares.

3. The Buyer is satisfied that:

   (a) no objection concerning the proposed Transaction has been raised by the relevant contracting officer of the Government (responsible for administering the Federal Acquisition Regulations ("FAR")), as amended from time to time;

   (b) the transfer of the Shares of the Company to the Buyer will not prevent the Company from conducting its business in its current form after Closing including without limitation the ability to continue as a government contractor or government sub-contractor within the meaning of the FAR as are amended from time to time and to conduct restricted or classified government work within the meaning of National Industrial Security Program.

   (c) There are no further outstanding capital stock in the Company (including pre-emption rights or option rights) and all the Shares are the subject matter of the Agreement.

   (d) The pending litigation between Thimakis on the one hand and the Company and Mr. Scott DeBo on the other ("**Parties to the Litigation**") is either (i) fully and finally settled and there are no more claims arising out of or in connection with the said litigation and a legally binding settlement agreement between the Parties to the Litigation (in terms that are to the reasonable satisfaction of the Buyer) is in place, or (ii) continued with the understanding the Mr. Miller will indemnify and hold Buyer harmless from any damages that exceed $10,000 in connection with such litigation.

   (e) The security interest granted in respect of the shares evidenced by share certificate numbers 107, 108, 109, and 112 in favor of The Estate of Thomas "J" Hilton has been terminated and the collateral released and no further claims (actual or contingent) and whether arising out of or in connection with the Stock Redemption Agreement dated 9 July 2002 subsist in favor of The Estate of Thomas "J" Hilton.

   (f) The Company's inventory (including its book inventory and perpetual records of inventory) be properly reconciled from the financial records, evaluated for obsolete and slow moving items and adjustments proposed and authorized.

4. No person:

   (a) has commenced, or threatened to commence, any proceedings or investigation for the purpose of prohibiting or otherwise challenging or interfering with the Transaction; or

(b) has taken or threatened to take any action as a result of or in anticipation of the Transaction that would be materially inconsistent with any of the Sellers' Warranties; or

(c) has enacted or proposed any legislation (including any subordinate legislation) which would prohibit, materially restrict or materially delay the implementation of the Transaction or the operations of the Company or any other member of its Group.

6. There not having occurred any Material Adverse Change in the business, operations, assets, position (financial, trading or otherwise), profits or prospects of the Company or Buyer.

7. For the purposes of assessing the merits and risks of holding the Consideration Shares, the Sellers have received a draft Form 10-SB which the Sellers acknowledge is subject to change and have been given the opportunity to ask questions of Buyer's management regarding the operations and financial conditions of Buyer.

8. Buyer and Sellers shall have performed and complied with all covenants and agreements required by this Agreement to be performed and complied with by them prior to or as of the Closing Date.

9. No court or governmental authority of competent jurisdiction shall have issued an order, not subsequently vacated, restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, and no person shall have instituted an action or proceeding which shall not have been previously dismissed seeking to restrain, enjoin or prohibit the consummation of the transactions contemplated by this Agreement or seeking damages with respect thereto.

10. Both Buyer and Sellers are satisfied with the contents of the Sellers Disclosure Schedules and the Buyer Disclosure Schedules, respectively, as modified after signing and prior to Closing.

Schedule 3: Conduct of Company between signing and closing

1. The Seller undertakes that the business of the Company shall be conducted in the manner provided in this Schedule from the date of this Agreement to Closing.

2. The Company shall carry on business in the usual, regular and ordinary course of business consistent with past practices;

3. The Company and its officers shall use its reasonable commercial efforts to preserve intact its business organization, licenses, permits, security clearances and classification obtained pursuant to its Security Agreement on DD-Form 441 (or its equivalent).

4. The Company shall not, except to the extent necessary to meet the Closing Conditions, without Buyer's consent, which shall not be unreasonably withheld:

   (a) dispose of any material assets used or required for the operation of its business; or

   (b) incur any capital expenditure on any individual item in excess of $10,000; or

   (c) make, or agree to make, material alterations to the terms and conditions of employment (including benefits) of any of its directors, officers or employees; or

   (d) create any Encumbrance over any of its assets or its undertaking; or

   (e) institute, settle or agree to settle any legal proceedings relating to its business, except debt collection in the normal course of business; or

   (f) grant, modify, agree to terminate or permit the lapse of any Intellectual Property Rights or enter into any agreement relating to any such rights other than in the ordinary course of business; or

   (g) incur any liabilities to any of the Sellers, other than trading liabilities incurred in the normal course of business or debt incurred pursuant to paragraph (k) below; or

   (h) enter into any (or modify any subsisting) agreement with any trade union or any agreement that relates to any works council; or

   (i) allot or agree to allot any shares or other securities, repurchase, redeem or agree to repurchase or redeem any of the shares (other than shares reflected on Schedule 9 that have not yet been transferred or issued to a Seller); or

   (j) borrow any sum in excess of $10,000; or

   (k) enter into any lease, lease hire or hire purchase agreement or agreement for payment on deferred terms except the lease of the new hire car for Mr. Scot DeBo for which the terms of the lease shall be approved by the Buyer prior to entering into same; or

   (l) pay any dividend or make any other distribution of its assets.

   (m) employ or dismiss any employees;

(o) assume or undertake any obligations to perform services or provide goods which exceed a contract value of US$75,000 and are outside the ordinary course of business;

(p) The Company may do anything falling within paragraphs (a) through (o) above if the Buyer has given written consent.

5. The Company and shall maintain its insurance policies in full force and effect.

6. The Sellers shall use its commercially reasonable endeavors to maintain the trade and trade connections of the Company.

7. The Sellers shall give to the Buyer as soon as possible full details of any Material Adverse Change in the Company.

8. The Sellers shall not:

i. induce, or attempt to induce, any of the employees of the Company, whether directly or indirectly, to terminate their employment before the Closing Date; or

ii. incur any liabilities to the Company other than liabilities within the thresholds established in Section 4 of their Schedule 3, other than trading liabilities incurred in the normal course of business.

9. No amendment shall be made to the Company's constitution including to its articles of incorporation.

10. No amendment, other than one made solely to comply with legislative requirements, shall be made to any agreements or arrangements for the payment of pensions or other benefits on retirement:

(a) to present or former directors, officers or employees of the Company; or

(b) to the dependants of any of those people.

Schedule 4: Closing Agenda

Part 1: What the Sellers and Buyer shall deliver at Closing

1. At or prior to the Closing the Sellers shall deliver or procure the delivery to the Buyer of the following documents and evidence:

   (i) duly executed stock transfers in favor of the Buyer or its nominee(s) of all the Shares;

   (ii) the share certificate(s) representing the Shares (or an express indemnity in a form satisfactory to the Buyer in the case of any found to be missing);

   (iii) waivers and consents and other documents required to enable the Buyer and/or its nominees to be registered as holders of the Shares;

   (iv) confirmation in writing that the Stock Option Plan 2004 of the Company is terminated and as of Closing there is no capital stock of the Company subject to the Stock Option Plan;

   (v) the certificate of incorporation, common seal (if any), minute books, statutory registers, share certificate books of the Company and books of accounts, contracts and agreements;

   (vi) certified copy of the Articles of Incorporation and all amendments thereto;

   (vii) A copy of the bylaws and all amendments thereto of the Company certified as true and in full force and effect as of Closing Date by the Secretary of the Company;

   (viii) release in a form that is satisfactory to the Buyer from all persons holding option in or over the Company's capital stock ("option holders") to the effect that no rights (actual or contingent) in or over the granted options exist at Closing Date;

   (ix) an executed power of attorney in favor of the Buyer or the Buyer's nominee(s) in respect of the Shares;

   (x) evidence that any amounts drawn down against the overdraft facility with Wells Fargo have been cleared in full;

   (xi) evidence that the Pledge in favor of the Estate of Thomas "J" Hilton and in whose favor a security interest was created in or over a part of the Shares which is the subject of this Agreement is no longer valid and subsisting and release in a form satisfactory to the Buyer is provided and the entry in the Utah Department of Commerce (file number 19242222900231) has been removed;

   (xii) bank statements showing the balance of the Company account on the last Business Day prior to completion and directions amending the mandates in respect of those accounts;

   (xiii) A copy of properly prepared Financial Statements for each financial quarter since November 1, 2005 and up to Closing Date;

   (xiv) A copy of all customer contracts which are current as of the Closing;

(xv) A copy of the current accounts payable schedule for the Company showing all outstanding debts to any supplier and which shall not be older than 30 days from the date of the supplier's invoice;

(xvi) Certificate of existence of the Company certified and issued by the relevant public official within 20 days of Closing;

(xvii) Certificate dated as of Closing Date signed by each of the Sellers and the duly authorized officers of the Company that the business of the Company has been conducted in accordance with the provisions set forth in Schedule 3;

(xviii) the Employment Agreements duly executed by Brent Miller and Scott DeBo;

(xix) Pledge Agreement duly executed by the Seller;

(xx) New Lease for the Leasehold Property signed between the Company and the Landlord along with waiver in a satisfactory form of any or all past breaches under the Lease Agreement;

(xxi) resignation letters in the agreed form by each director and the secretary of the Company, in each case acknowledging under seal that she/he has no claim (actual or contingent) against the Company in respect of breach of contract, compensation for loss of office, redundancy or unfair dismissal or on any other grounds whatsoever;;

(xxii) evidence that all indebtedness referred to in Section 15.1 has been fully satisfied; and

(xxiii) Board resolutions appointing new directors and officers of Company nominated by the Buyer.

2. At Closing the Buyer shall deliver or procure the delivery to the Sellers of the following:

(i) each Promissory Note duly executed by Buyer;

(ii) Pledge Agreement duly executed by Buyer;

(iii) Validly issued Consideration Shares;

(iv) Certificate of Good Standing issued no more than twenty (20) days prior to the Closing Date certified by the relevant public official;

Part 2: Matters for the Board Meeting at Closing

1. The Seller shall cause or procure that a properly convened board meeting of the Company be held at Closing at which the matters set out in this Part 2 shall take place.

   (i) such person(s) as the Buyer nominates are appointed as directors and the secretary of that Company;

   (ii) the resignation of Mr. Craig Adamson as director and the secretary of the Company;

   (iii) the transfers referred to in Part 1 paragraph 1 (i) above are approved for registration in the Companies' books; and

   (iv) the bank mandates relating to each of the Company are revised in such manner as the Buyer requires; and

Schedule 5: Sellers' Warranties

Unless stated otherwise, only each of the Principal Sellers make the following representations and warranties and, except as specifically provided in Section 14 of this Schedule 5, none of the following representations or warranties apply to Intellectual Property:

1. Organization, Authority and Capacity

1.1. The Company is a corporation duly organized, validly existing and in good standing under the laws of Utah and has the full power and authority necessary to (i) execute, deliver and perform its obligations under the Closing Documents and (ii) to carry on its business as it has been and is now being conducted and to own and lease the properties and assets which it owns and leases. The Company is duly qualified to do business and is in good standing in every jurisdiction in which the failure to be so qualified or in good standing would have a material adverse effect on (i) its ability to perform its obligations under the Closing Documents; or (ii) the assets, financial position, or results of operations of the Company. Set forth in the Seller Disclosure Schedule is a list of all jurisdictions in which the Company is required to be qualified as a foreign corporation.

1.2. Each of the Sellers represents and warrants that he has the power and the authority to own the Shares and to execute, deliver and perform the Closing Documents to which he is a party and to consummate the Transaction.

1.3. The Company does not own any shares in any corporation or other equity interest, either of record, beneficially or equitably, in any association, partnership, limited liability company, joint venture or other legal entity, or have any commitment to acquire any such interest or make any loans or capital contributions to any such entity.

2. Authorization and Validity

2.1. The execution, delivery and performance of the Closing Documents or its terms by the Sellers and the Company have been duly authorized by all necessary corporate shareholders. The Closing Documents to be executed and delivered by the Sellers or the Company have been or will be at Closing duly executed and delivered by the Sellers and the Company and constitute or will constitute at Closing the legal, valid and binding obligations on the Sellers and the Company, enforceable in accordance with their respective terms except as such enforceability may be subject to the effect of bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting the rights of creditors and of general principles of equity (the "Enforceability Exceptions").

3. Absence of conflicting agreements or required consents

3.1. Except as is set forth in the Seller Disclosure Schedule, the execution, delivery and performance by the Sellers and the Company of the Closing Documents to be executed and delivered by the Sellers and/or the Company (i) do not require the consent of or notice to any governmental or regulatory authority or any other third party; (ii) will not conflict with any provision of organizational documents (including certificate or articles of incorporation and bylaws) of the Company; (iii) will not conflict with or result in a violation of any law, ordinance, regulation, ruling, judgment, order or injunction of any court or governmental or quasi-governmental body to which the Sellers or the company is subject or which the Sellers or the Company or any of their assets or properties are bound; (iv) will not conflict with, constitute grounds for termination of, result in a breach of, constitute a default under, require any notice under, or accelerate or permit the acceleration of any performance required by the terms of any agreement, instrument, license, or permit to which the Sellers or the Company is a party or by which the Sellers or the Company or any of their respective properties are bound; (v) will not create any Encumbrances upon the assets or properties of the Sellers or the Company.

4. Constitutional and Corporate Documents

4.1. True and correct copies of the articles of incorporation and all amendments thereto and bylaws of the Company are annexed to the Seller Disclosure Schedule.

4.2. The Company has delivered true and correct copies of all books and records and minutes of the Company to the extent minutes of such meetings were maintained, and such minutes accurately reflect in all material respects the proceedings at such meetings of the board of directors (and all committees thereof) and shareholders of the Company.

5. Capitalization and Ownership of Capital Stock

5.1. As of Closing Date, the authorized capital stock of the Company consists of 1000 shares of common stock having par value of $1.00 each of which 402 shares of stock have been duly and validly issued and are all fully paid and non-assessable at Closing Date. As of Closing Date these constitute the entire issued and outstanding share of capital stock in the Company.

5.2. The Shares are owned by the Sellers in the proportion specified in Schedule 9 and are free from all Encumbrances.

5.3. At the Closing Date there is no right to require the Company to issue any share capital.

5.4. The Stock Redemption Agreement between the Company and the Estate of Thomas "J" Hilton dated 9th July 2002 will, as of the Closing date, have been terminated and there will be no further obligations or liabilities (contingent or otherwise) arising therefrom or in connection therewith ("**Stock Redemption Agreement**") and the 68 shares evidenced by share certificate numbers 108, 109, 110, 111, and 112, have been released from the security interest granted by way of Pledge Agreement dated 9th July 2002 and the Estate of Thomas "J" Hilton has no further claims (contingent or otherwise) in or over the capital stock of the Company or its property.

5.5. The Stock Redemption Agreement between the Company and Brent Miller dated 1st November 2003 will, as of the Closing Date, have been terminated and there will be no further obligations or liabilities (contingent or otherwise) arising therefrom or in connection thereto.

5.6. In redeeming the Shares pursuant to the Stock Redemption Agreements referenced in Sections 5.4 and 5.5 of this Schedule 5, the Company has fully complied with all legal and formal requirements including all necessary consents and approvals.

5.7. Except as is disclosed in the Seller Disclosure Schedule, the Company does not have any obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof.

5.8 All dividends or distributions declared, made or paid by the Company have been declared, made or paid in accordance with its articles of incorporation and bylaws, applicable legislation and any agreements or arrangements made with any third party regulating the payment of dividends and distributions.

6. Financial Statements

6.1. The Financial Statements of the Company for the Fiscal Years ended 31 October 2004 and 2005 and the Fiscal Year ended 31 October 2006 will, at Closing Date, be prepared in good faith and present fairly in all material respects the financial conditions and operating results of the Company as of the dates and for the periods indicated therein and have been provided to Buyer prior to the Closing. Except as set forth in the Financial Statements or the Sellers Disclosure Schedules, the Company has no material liabilities or obligations, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to 1st November 2005 (ii) obligations under contracts and commitments incurred in the ordinary course of business and (iii) liabilities and obligations of a type or nature not required under U.S. generally accepted accounting principles to be reflected in the Financial Statements, which, in all such cases, individually and in the aggregate would not have a material adverse effect.

7. Absence of certain changes or events

7.1. Except as is disclosed in the Seller Disclosure Schedule, since 1 November 2006 the Company has not

(a) suffered any Material Adverse Change in working capital, condition (financial or otherwise) assets, liabilities, reserves, business or operations;

(b) paid, discharged or satisfied any material liability except in the ordinary course of business;

(c) written off as uncollectible any account receivable other than in the ordinary course of business;

(d) compromised any debts, claims or rights or disposed of any of its properties or assets other than in the ordinary course of business;

(e) entered into any commitments or transactions not in the ordinary course of business involving aggregate value in excess of $10,000 or made aggregate capital expenditures or commitments in excess of $10,000;

(f) made any material change in any method of accounting or accounting practice;

(g) sold, assigned or transferred any tangible asset other than in the ordinary course of business or any Intellectual Property Rights;

(h) subjected any of its assets, tangible or intangible to any lien, encumbrance or restriction of any nature, whatsoever, except for Permitted Liens;

(i) increased any salaries, wages or employee benefits or made any arrangement for payment of any bonus or special compensation for any employee other than in the ordinary course of business;

(j) hired, committed to hire or terminated any employee other than in the ordinary course of business;

(k) terminated or amended any material contract, license or other instrument or suffered any loss or termination or threatened loss or termination of any existing material business arrangement or supplier, the termination or loss of which, in the aggregate could reasonably be expected to materially and adversely affect the Company or the Properties;

(l) agreed, whether in writing or otherwise, to take any action described in this paragraph 7.

8. No undisclosed liabilities

8.1. Except as is disclosed in the Seller Disclosure Schedule or reflected in the Financial Statements, the Company has no liabilities or obligations, whether accrued, absolute, contingent or otherwise, that are greater than $10,000 in the aggregate.

9. Litigation

9.1. Except as is disclosed in the Seller Disclosure Schedule there are no claims, lawsuits, actions, arbitrations administrative or other proceedings, including, without limitation, claims involving prior employment of any of the Company's employees or any information techniques allegedly proprietary to any of their former employers, instituted or pending against the Company or any person for whom it is vicariously liable.

9.2. To the knowledge of Principal Sellers (i) no such matter described in the preceding paragraph 9.1 is threatened and there is no basis for any such action, and (ii) there are no governmental or administrative investigations or inquiries pending that involve the Company or any person for whom it is vicariously liable.

9.3. There are no judgments against or consent decree binding on the Company or any person for whom it is vicariously liable.

10. No violation of the law

10.1. Neither the Company nor any of the Sellers (to the extent affecting ownership or value of the Shares) is currently in material violation of any applicable local, state or federal law, order, decree or other requirement of any governmental body, agency or Regulatory Authority or court binding on it, or relating to its property or business.

10.2. Neither the Company nor any of the Sellers (to the extent affecting ownership or value of the Shares) has received notice of any material fine, penalty, liability or disability as a result of a failure to comply with any requirement of federal, state or local law.

11. Real and Personal property

11.1. The Company (i) has good and valid title to all Properties which it purports to own, and (ii) owns such Properties free and clear of all Liens (except for current year ad valorem taxes and Permitted Liens). All of the Properties, whether owned or leased, are in the possession and control of the Company. Except as disclosed in the Seller Disclosure Schedule, no affiliate of the Company, has any claim or interest in any of the Properties that are used or useful in the business conducted by Company in any operations that are similar to or competitive with that business, even if geographically distant**.**

11.2. The Company does not own any real property.

11.3. The Seller Disclosure Schedule contains a true and correct description of the Leasehold Property, including all improvements located thereon. The Leasehold Property constitutes the only leased real property of the Company. The Company has a valid and binding lease for such property, copies of which are attached to the Seller Disclosure Schedule.

11.4. The Company is current with respect to all payments due under such lease and it has complied in all material respects with its obligations under such lease, and there are no material defaults on the part of the Company, and to the knowledge of Principal Sellers on the part of any other party under such lease that remain uncured and no condition exists which, with the lapse of time or giving of notice, or both, would give rise to a material default under such lease. The Buyer has been furnished with true, correct and complete copies of the lease concerning the Leasehold Property. No condemnation or similar actions are currently in effect or pending or, to the knowledge of the Principal Sellers, threatened against any part of any real property leased by the Company. To the knowledge of the Principal Sellers, there are no encroachments, leases, easements, covenants, restrictions, reservations or other burdens of any nature which might impair in any material respect the use of such leased real property in a manner consistent with past practices nor does any part of any building structure or any other improvement thereon encroach on any other property.

11.5. The present zoning, subdivision, building and other ordinances and regulations applicable to the Leasehold Property permit the continued operation, use, occupancy and enjoyment of such real property consistent with past practices, and, with respect to such leased real property.

11.6. The Company is in compliance in all material respects with, and has received no notices of violations of, any applicable zoning, subdivision or building regulation, ordinance or other similar law, regulation, or requirement. The Company has all rights and easements necessary for public ingress thereto and egress therefrom and for the provision of all utility services thereto, including any required curb cut or street opening permits or licenses for vehicular access over presently existing roads and driveways.

11.7. The Properties are in good operating condition and repair, ordinary wear and tear excepted, and the Properties include all rights, interests in properties, and assets necessary to permit the Company to continue its business after the Closing Date as presently conducted. The Company has only conducted the Business under such names and at such locations as are identified in the Sellers Disclosure Schedule and all of the Properties are currently located at those locations identified on the Sellers Disclosure Schedule.

11.8. The Leasehold Property complies with any requirements including security standards specified in the Facility Security Clearance that are applicable to the Company in its capacity of a government contractor or sub-contractor making it eligible for access to classified information and which are set forth in the National Industrial Security Program (NISP) and the National Industrial Security Program Operating Manual (NISPOM).

12. Contracts and Commitments

12.1. The Seller Disclosure Schedule contains a complete and accurate list of all contracts, agreements, commitments and instruments (whether written or oral, contingent or otherwise) of the Company concerning the following matters (the "Seller Agreements"):

(a) the lease, as lessee or lessor, or license, as licensee or licensor, of any real or personal property under the terms of which the Company is likely to pay or otherwise give consideration of more than $5,000;

(b) the employment or engagement of any officer, director, employee, consultant or agent, other than those terminable at will without severance obligation, and any covenant not to compete with any former employees;

(c) any arrangement limiting the freedom of the Principal Sellers or the Company to compete in any manner in any line of business or requiring the Principal Sellers or the Company to share profits other than commissions payable to sales persons;

(d) any arrangement that could reasonably be anticipated to have a material adverse effect on the Company, financial or otherwise;

(e) any material arrangement not in the ordinary course of business;

(f) any power of attorney, whether limited or general, granted by the Company;

(g) any single arrangement that under the terms of which the Company is likely to pay consideration of more than $10,000 in the aggregate during the calendar year ending December 31, 2006, and which is not terminable by the Company without penalty upon notice of 30 days or less; and

(h) any relationship of the Company with any person or entity affiliated with or related to the Company or any officer or director thereof.

12.2. Except as is Disclosed in the Seller Disclosure Schedule, the Company has not made any representations regarding equity incentives to any officer, employees, director or consultant.

12.3. The Sellers have delivered to Buyer true and complete copies of all of the Seller Agreements. Except as indicated in the Seller Disclosure Schedule, the Seller Agreements are valid and effective in accordance with their terms (except for the Enforceability Exceptions), and there is not under any of such Seller Agreements (i) any existing or claimed material default by the Company or event which, with the notice or lapse of time, or both, would constitute a material default by the Company; or (ii) to the knowledge of the Principal Sellers, any existing or claimed material default by any other party or event which with notice or lapse of time, or both, would constitute a material default by any such party. Except as indicated in the Seller Disclosure Schedule, the entering into this Agreement or any other Closing Documents will not result in a breach of or default under, or require the consent of any other party to, or give rise to a right of termination by any other party to, any of the Seller Agreements. There is no actual or, to the knowledge of the Principal Sellers, threatened termination, cancellation or limitation of any Seller Agreements that would have a material adverse effect on the Company, its business, finances or otherwise. To the knowledge of each of the Principal Sellers, there is no pending or threatened bankruptcy, insolvency or similar proceeding with respect to any other party to the Seller Agreements.

13. Employment and Labor Matters

13.1. The Seller Disclosure Schedule sets forth a list of all current and former (within the last 12 months) full-time and part-time employees or consultants of the Company, broken down by location and which includes the name, title or position, years in service of the Company, wages, salaries, commissions, bonuses and benefits ("**Remuneration**") information for each such person (the "Company Employees").

13.2. The Company is not delinquent in payments to any of its Company Employees any Remuneration for any service performed for it to the date hereof or amounts required to be reimbursed to such employees, consultants, or independent contractors. The Company has complied in all material respects with all applicable state and federal equal employment opportunity laws and with other laws related to employment, including those related to wages, hours, worker classification, and collective bargaining. The Company has withheld and paid to the appropriate governmental entity or is holding for payment not yet due to such governmental entity all amounts required to be withheld from employees of the Company and is not liable for any arrears of wages, taxes, penalties, or other sums for failure to comply with any of the foregoing.

13.3. Except as set forth on the Seller Disclosure Schedule to the Principal Sellers' knowledge, no Company Employee intends to terminate employment with the Company or is otherwise likely to become unavailable to continue as a Company Employee, nor does the Company have a present intention to terminate the employment of any Company Employee. Except as disclosed in the Disclosure Schedules, the employment of each Company Employee is terminable at the will of the Company. Except as set forth in the Disclosure Schedule or as required by law, upon termination of the employment of any such employees, no severance or other payments will become due. Except as set forth in the Seller Disclosure Schedule, the Company has no policy, practice, plan, or program of paying severance pay or any form of severance compensation in connection with the termination of employment services.

13.4. The acquisition of the Shares by the Buyer or compliance with the terms of this Agreement will not, so far as the Principal Sellers are aware, cause any directors, officers or senior employees or Key Employees of the Company to terminate their employment.

13.5. The Seller Disclosure Schedule sets forth each employee benefit plan maintained, established or sponsored by the Company, or which the Company participates in or contributes to, which is subject to the Employee Retirement Income Security Act of 1974, as amended. The Company has made all required contributions and has no liability to any such employee benefit plan, other than liability for health plan continuation coverage, and has complied in all material respects with all applicable laws for any such employee benefit plan.

13.6. The Company is not bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or, to the knowledge of the Company, has sought to represent any of the employees, representatives or agents of the Company. There is neither a strike or other labor dispute involving the Company pending, or to the Principal Sellers' knowledge, threatened, which could have a material adverse effect, nor is the Company aware of any labor organization activity involving its employees.

13.7. The Company will not incur any liability or obligation to any of Company Employees or violate any applicable laws respecting employment and employment practices as a result of the any of the Transactions contemplated herein.

13.8. A ll Company Employees engaged in classified projects where the Company i s engaged as government contractor or subcontractor (within the meaning o f FAR) have, where required, the appropriate security clearances and to the Seller's knowledge none of the employees who are currently security cleared for the performance of their duties run the risk of or is likely to lose such security clearance

14. Intellectual Property Rights

14.1. An accurate summary is set out in Schedule 14.1 of the Sellers Disclosure Schedules of all registered Intellectual Property Rights (including applications for such rights) and material unregistered Intellectual Property Rights owned by the Company.

14.2. A list is set out in the Seller Disclosure Schedules of all material licenses, agreements, authorizations and permissions, excluding off-the-shelf software (in whatever form and whether express or implied) under which:

(a) the Company uses or exploits Intellectual Property Rights owned by any third party; or

(b) the Company has licensed or agreed to license Intellectual Property Rights to, or otherwise permitted the use of any Intellectual Property Rights by, any third party.

14.3. Except as set out in the Seller Disclosure Schedules, the Company is the sole legal and beneficial owner of (or applicant for) the Intellectual Property Rights set out in Schedule 14.1 of the Seller Disclosure Schedules, free from all Encumbrances.

14.4. The Company, to its knowledge, does not require any Intellectual Property Rights other than those set out in Schedule 14.1 and 14.2 of the Seller Disclosure Schedules in order to carry on its activities as currently conducted.

14.5. The Intellectual Property Rights set out in Schedule 14.1 of the Seller Disclosure Schedules are to the Company's knowledge, valid, subsisting and enforceable and nothing has been done or not been done as a result of which any of them has ceased or might cease to be valid, subsisting or enforceable. In particular, except as disclosed in the Disclosure Schedules:

(a) all application and renewal fees and other steps required for the maintenance or protection of such rights have been paid on time or taken except where the failure to pay such fees or take such other steps would not have a material adverse effect on the Company;

(b) Except as set forth in the Seller Disclosure Schedules, to the knowledge of the Company, all material confidential information (including know-how and trade secrets) owned or used by the Company has been kept confidential and has not been disclosed to third parties (other than parties who have signed written confidentiality undertakings in respect of such information, details of which are set out in the Seller Disclosure Schedules);

(c) to the knowledge of the Company, no mark, trade name or domain name identical or similar to any such rights has been registered, or is being used by any person in the same or a similar business to that of the Company, in any country in which the Company has registered or is using that mark, trade name or domain name; and

(d) there are and have been no claims, challenges disputes or proceedings, pending or, to the knowledge of the Company, threatened, in relation to the ownership, validity or use of such rights.

14.6. Nothing is due to be done within 30 days of Closing the omission of which would jeopardize the maintenance or prosecution of any of the Intellectual Property Rights owned or used by the Company which are registered or the subject of an application for registration.

14.7. To the knowledge of the Company and except as set forth in the Seller Disclosure Schedules, there has been no infringement by any third party of any of the Intellectual Property Rights identified in Schedule 14.1 of the Seller Disclosure Schedules, nor any third party breach of confidence, passing off or actionable act of unfair competition in relation to the business and assets of the Company.

14.8. Except as disclosed in the Seller Disclosure Schedules, a change of control of the Company will not result in the termination of or materially affect any of the Intellectual Property Rights set out in Schedule 14.2(a) of the Seller Disclosure Schedules.

14.9. The activities of the Company and any licensee of any Intellectual Property Rights granted by the Company, to the Company's knowledge, have not infringed and do not infringe the Intellectual Property Rights of any third party.

15. Insurance Policies

15.1. All of the Properties and the operations of the Company of an insurable nature and of a character usually insured by companies of similar size and in similar businesses are insured by the Company in such amounts and against such losses, casualties or risks as is (i) required by any Law applicable to Company, or (ii) required by any contract or agreement entered into by the Company.

15.2. The Seller Disclosure Schedule contains a complete and accurate list of all insurance policies held or owned by the Company and now in force and such Schedule indicates the name of the insurer, the type of policy, the risks covered thereby, the amount of the premiums, the term of each policy, the policy number, the amounts of coverage, the deductible in each case and all outstanding claims thereunder. Correct and complete copies of certificates of insurance for all such policies have been delivered to Buyer by the Seller on the date of this Agreement. All such policies are in full force and effect and enforceable in accordance with their terms (except for the Enforceability Exceptions). The Company is not now in default regarding the provisions of any such policy, including, without limitation, failure to make timely payment of all premiums due thereon, and none of them has failed to file any notice or present any claim thereunder in due and timely fashion. The Company has not been refused, or denied renewal of, any insurance coverage by insurance companies offering such insurance. The Seller Disclosure Schedule contains copies of all insurance audit reports, loss prevention reports, all claims made and loss history reports generated since November 1, 2001 in respect of any insurance maintained by the Company.

15.3. For the last 5 years the Company has continuously maintained workers compensation and employer liability, commercial property, general liability, commercial auto, commercial excess liability and umbrella liability and general professional liability (including completed operations hazard endorsement), product liability insurance coverage.

16. Environmental Matters

16.1. The Company has materially complied and is in material compliance with (i) all applicable environmental, health and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder of all governmental agencies and (ii) the terms and conditions of all applicable permits, licenses, certificates and approvals of all such governmental agencies now or hereafter granted or obtained with respect to the properties owned or operated by the Company.

16.2. There are no present or past Environmental Conditions relating to or which could in any way materially and adversely affect the Company or the Properties. For the purposes of this Agreement, In this context "**Environmental Condition**" means (a) the introduction into the environment of any pollution, including without limitation any contaminant, irritant or pollutant or other toxic or hazardous substance, in violation of any federal, state or local law, ordinance or governmental rule or regulations, as a result of any spill, discharge, leak, emission, escape, injection, dumping or release of any kind whatsoever of any substance or exposure of any type in any work places or to any medium, including without limitation air, land, surface waters or ground waters, or from any generation, transportation, treatment, discharge, storage or disposal of waste materials, raw materials, hazardous materials, toxic materials or products of any kind or from the storage, use or handling of any hazardous or toxic materials or other substances, and (b) any non-compliance with any federal, state or local environmental Law or order as a result of or in connection with any of the foregoing.

16.3 The Principal Sellers hereby agree to indemnify and hold the Buyer harmless from and against any and all claims, losses, liability, damages and injuries of any kind whatsoever asserted against the Buyer with respect to or as a direct result of the presence, escape, seepage, spillage, release, leaking, discharge or migration of any hazardous material from the properties during the period such properties were owned or operated by the Company prior to Closing, including without limitation, any claims asserted or arising under any applicable environmental, health and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder of all governmental agencies.

17. Taxes

17.1. Except as listed in the Seller Disclosure Schedule, or as reflected in the Financial Statements there does not exist any liability for Taxes which may be asserted by any Regulatory Authority with responsibility for Taxes against, and no Lien or other encumbrance for Taxes will attach to, the Company or any of the Properties other than Taxes due in respect of periods for which Tax Returns are not yet due and for which adequate accruals have been made in the Financial Statements.

17.2. All Tax Returns required to be filed by the Company in the past 6 years have been filed (other than Tax Returns for which extensions to file have been granted) with the appropriate governmental agencies in all jurisdictions in which such Tax Returns are required to be filed, all of which are true, correct and complete in all material respects, and all amounts shown as owing thereon have been paid.

17.3. Except as listed on the Sellers Disclosure Schedule, neither Sellers nor Company has received notice of any Tax Claims being asserted or any proposed assessment by any taxing authority and no Tax Returns of the Company has been audited by the Internal Revenue Service (the "IRS") or the appropriate state agencies for any fiscal year or period between November 1, 2001 and the date hereof, and the Company is not presently under, nor have they received notice of any, contemplated investigation or audit by the IRS or any state agency concerning any fiscal year or period ended prior to the date hereof. Except as listed on the Seller Disclosure Schedule, and the Company has not executed any extension or waivers of any statute of limitations on the assessment or collection of any Tax due that is currently in effect.

17.4. The Company has withheld or collected from each payment made to each of its employees the amount of Taxes required to be withheld or collected therefrom and the Company has paid the same to the proper tax depositories or collecting authorities.

18. Licenses and Authorizations

18.1. The Company holds all valid licenses and other rights, accreditations, permits and authorizations required by law, ordinance, regulation or ruling of any Regulatory Authorities necessary to operate its business as now conducted to the extent failure to obtain such licenses, rights, accreditations, permits and/or authorizations would not have a material adverse effect on the Company.

19. Changes in Laws

19.1. To Principal Sellers' knowledge there are no pending changes in applicable law or regulations that would prevent the Company from conducting its business in substantially the same manner as its business is currently conducted prior to the Closing Date.

20. Inventory

20.1. Except as disclosed on the Seller Disclosure Schedules, all items of inventory of the Company consist, and will consist of items of a quality and quantity usable and saleable (and not obsolete) in the ordinary course of business. All items of inventory have been in the Company's possession for six months or less. Except as set forth on the Seller Disclosure Schedule, since 1 November 2006, no item of inventory has been sold or disposed of, except through sales in the ordinary course of business, and in no event at prices less than book value of such stock items as of 1 November 2006.

21. Business Relationships

21.1. Except as disclosed on the Seller Disclosure Schedule, to the Principal Sellers' knowledge, the relationships between the Company and all customers, clients, Employees and vendors who receive goods and services from or provide goods and services to the Company are satisfactory, and the Seller has no knowledge of (i) any facts or circumstances which would reasonably be expected to materially alter, negate, impair or in any way adversely affect the continuity of any such relationships or (ii) any complaints, claims, threats, plans or intentions to discontinue or curtail relations under any such relationships.

21.2 Except as disclosed in the Seller Disclosure Schedule, the Seller has no knowledge of any present or future condition or state of facts or circumstances which would prevent the Company from carrying on its business after the Closing Date in the same manner as it is presently being carried on.

22. Accounts Receivable

22.1. Except as set forth in the Seller Disclosure Schedule, the accounts receivable reflected in the most recent balance sheet of the Company, separately included in the Financial Statements referred to in paragraph 6 hereof, and all accounts receivable arising between 1 November 2006 and the date hereof, arose from bona fide transactions in the ordinary course of business. Except as set forth in the Seller Disclosure Schedule, the accounts receivable reflected on such balance sheet, have been properly recorded and reserved against consistent with past practice. No such account receivable has been assigned or pledged to any other person, firm or corporation. Reasonable provision has been made in the Financial Statements for collection losses, contractual discounts and other adjustments from third party payers.

23. Connected Party Transactions

23.1. Except as set forth in the Seller Disclosure Schedule hereto, there are no existing arrangements or proposed transactions between the Company, and (i) any officer or director of the Company or any member of the immediate family of any of the foregoing persons (such officers, directors and family members being hereinafter individually referred to as a "Connected Party"), (ii) any business (corporate or otherwise) which a Connected Party owns, or controls directly or indirectly, or in which a Connected Party has an ownership interest or (iii) between any Connected Party and any business (corporate or otherwise) with which the Company regularly does business.

24. Working capital

Having regard to the existing bank and other facilities available to it the Company has an amount of working capital (which, for purposes of this Section 24, includes accounts receivable and anticipated milestone payments) that is consistent with past practices for the purposes of (i) continuing to carry on its business in its present form and at its present level of turnover for the foreseeable future and (ii) executing, carrying out and fulfilling in accordance with their terms all orders, projects and contractual obligations which have been placed with or undertaken by it.

Schedule 6: Covenants of Buyer

1. **Affirmative Covenants.** Buyer covenants and agrees with Sellers that Buyer shall, from the date hereof and so long as any amount is outstanding under any Promissory Note or Convertible Promissory Note, unless both of the Sellers' Directors (as that term is defined in Section 1.9 below) agree otherwise:

1.1. Maintenance of Corporate Existence. Preserve and maintain (a) the legal existence and good standing of Buyer and the Company under the laws of the jurisdiction of their respective incorporation or organization and (b) the rights (charter and statutory), privileges, franchises, authorizations, clearances and permits necessary or desirable in the conduct of each of Buyer's and the Company's business, except, in the case of this clause, where the failure to do so would not, in the aggregate, have a material adverse effect on Buyer or the Company.

1.2. Compliance with Laws, Etc. Comply with and cause the Company to comply with all applicable laws, contractual obligations and permits, except for such failures to comply that could not reasonably be expected, individually or in the aggregate, to have a material adverse effect.

1.3. Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all of the charges and other obligations of Buyer and the Company of whatever nature due and payable after the Closing, except (a) where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with and in accordance with the generally accepted accounting principals in the United States in effect from time to time ("US GAAP") with respect thereto have been provided on the books of the Buyer and/or the Company, as applicable, and (b) none of the assets of the Company or the Shares is or could reasonably be expected to become subject to any encumbrance or forfeiture or loss as a result of such contest.

1.4 Maintenance of Property. Maintain and preserve (a) in all material respects in good working order and condition the assets of the Company and all other of its property reasonably necessary in the conduct of its business in each case, ordinary wear and tear excepted, and (b) all material rights, permits, licenses, approvals and privileges (including all permits) necessary, used or useful, whether because of its ownership, lease, sublease or other operation or occupation of property or other conduct of its business, and shall make all necessary or appropriate filings with, and give all required notices to, government authorities.

1.5 Maintenance of Insurance. Maintain the Company's insurance at the level maintained by the Company at Closing Date.

1.6. Keeping of Books. Keep proper books and records, in which full, true and correct entries of all financial transactions and the assets and business of the Company shall be made as is necessary and in accordance with applicable requirements of the law.

1.7. Environmental Compliance. Cause the Company to materially comply with and will use its best efforts to cause its agents, contractors and sub-contractors (while such Persons are acting within the scope of their contractual relationship with the Company to so materially comply with (i) all applicable environmental, health and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder of all governmental agencies and (ii) the terms and conditions of all applicable permits, licenses, certificates and approvals of all governmental agencies now or hereafter granted or obtained with respect to the properties owned or operated by the Company. The Buyer will use its best efforts and safety practices to prevent the unauthorized release, discharge, disposal, escape or spill of hazardous materials on or about the properties owned or operated by the Company.

1.8. Environmental Indemnification. Buyer hereby agrees to indemnify and hold the Sellers harmless from and against any and all claims, losses, liability, damages and injuries ("Losses") of any kind whatsoever asserted against any Sellers with respect to or as a direct result of the presence, escape, seepage, spillage, release, leaking, discharge or migration from the properties owned or operated by the Company of any hazardous material after the Closing, including without limitation, any claims asserted or arising under any applicable environmental, health and safety laws, codes and ordinances, and all rules and regulations promulgated thereunder of all governmental agencies but only to the extent that Losses arise out of acts or omissions of Company after Closing.

1.9 Board of Directors. Cause two directors designated by the Sellers holding a majority in interest in the Shares immediately prior to the Closing ("Sellers' Directors") to be appointed to and remain on the Company's Board of Directors. The initial Sellers' Directors shall be Brent Miller and Scott DeBo.

1.10 Year-End Bonuses. Buyer shall honor the year-end-bonuses approved by the Company's Board of Directors prior to the Closing Date as are Disclosed in the Seller's Disclosure Schedule prior to Closing and which are in accordance with the Company's obligations assumed and in line with Year End Bonuses approved and paid by the Company in the last five fiscal years prior to Closing. Notwithstanding, the Buyer shall only be obliged to honor these to the extent that the Company is not cash deficient at Closing.

1.11 Note Payments. Buyer shall make all payments under the Promissory Notes and the Convertible Promissory Notes on a pro rata basis based upon the relation that the principal amount of the such Promissory Note or Convertible Promissory Note bears in relation to the aggregate principal amounts of all Promissory Notes and Convertible Promissory Notes. Any failure to do so shall constitute a breach and material default under all of the Promissory Notes, the Convertible Promissory Notes, this Agreement and the Unaccredited Stock Purchase Agreements. The shareholders of the Company that are not a party to this Agreement are intended third party beneficiaries of the terms of this Section 1.11.

1.12 Further Assurances. Subject to the requirements of reasonableness, at any time and from time to time, upon the written request of Sellers and at the sole expense of Buyer, promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Sellers may reasonably deem necessary or advisable (a) to obtain the full benefits of the Promissory Note and the Stock Pledge Agreement, (b) to protect, preserve, maintain and enforce Sellers' rights in the Company, or (c) to enable Sellers to exercise all or any of the rights, remedies and powers granted herein or in the Pledge Agreement.

2. **Negative Covenants.** Buyer covenants and agrees with Sellers that Buyer shall not, from the date hereof and so long as any amount is outstanding under the Promissory Note, unless both of the Sellers' Directors agree otherwise:

2.1 Indebtedness. Permit the Company to cancel any debt owing to it or create, incur, assume or permit to exist any indebtedness, except accounts payable and accrued liabilities or other liabilities or other indebtedness incurred in the ordinary course of business; provided, however, (i) the Company may raise working capital to be used in the ordinary course of the Company's business in an aggregate amount not to exceed $500,000, and (ii) Buyer and C.O.G. hereby indemnify the Company and Sellers against aggregate indebtedness in excess of $500,000.

2.2 Liens. Incur, maintain or otherwise suffer to exist any lien upon or with respect to the assets of the Company or the Shares, whether now owned or hereafter acquired, or assign any right to receive income or profits, except for Permitted Liens. Nothing in this provision shall prevent the Company to raise working capital finance to be used in the ordinary course of the Company's business; provided, however, (i) the aggregate amount of any such financings does not exceed $500,000, and (ii) Buyer and C.O.G. hereby indemnify the Company and Sellers against any payments necessary to cause the release of liens incurred or maintain as a result of aggregate financings in excess of $500,000.

2.3 Investments; Fundamental Changes. Permit the Company to merge with, consolidate with, acquire all or substantially all of the assets or stock of, or otherwise combine with or make any investment in or, loan or advance to, any person or entity.

2.4 Asset Transfers. Permit the Company to transfer, sell or otherwise dispose of any of its assets or properties, including its any shares of its capital stock or engage in any sale leaseback, synthetic lease or similar transaction except in the ordinary course of its business.

2.5 Changes in Nature of Business. Permit the Company to make any changes in any of its business objectives, purposes, or operations that could reasonably be expected to have a material adverse effect on the Company, its assets or its business, or engage in any business other than that presently engaged in or currently proposed to be engaged.

2.6 Transactions with Affiliates. Permit the Company into any lending, borrowing or other commercial transaction, with any of its employees, directors, affiliates.

2.7 Modification of Certain Documents. Permit the Company to amend, waive, or otherwise modify its charter or by-laws or other organizational documents.

2.8 Accounting Changes; Fiscal Year. Permit the Company to change its (a) accounting treatment or reporting practices, except as allowed by US GAAP or required by law, or (b) its fiscal year or its method for determining fiscal quarters or fiscal months except that nothing in this Section shall prevent the Buyer from changing its fiscal year where necessary to comply with its regulatory obligations.

2.9 Changes to Name, Locations, Etc. Permit the Company to change (i) its name or corporate office, (ii) location of its records concerning the assets of the Company from its corporate office, (iii) the type of legal entity that it is, (iv) its organization identification number, if any, issued by its state of incorporation or organization, or (v) its state of incorporation or organization.

2.10 Hazardous Materials. Permit the Company to cause or suffer to exist any release of any hazardous material at, to or from any real property owned, leased, subleased or otherwise operated or occupied by the Company to the extent that the same was not caused or existed prior to Closing, that would violate any environmental law, other than such releases that would not, in the aggregate, have a material adverse effect on the Company.

2.11 Capital Expenditures. Permit the Company to make any capital expenditures other equipment in the ordinary course of the Company's business.

2.12 Board of Directors. Permit the number of members of the Company's board of directors to exceed four.

2.13 Diversion of Business. Divert existing business (or prospective business) away from the Company.

2.14 Devalue the Company. Take any action that could reasonably be expected to devalue the Company or its assets.

Schedule 7: Buyer's Warranties

The Buyer hereby represents and warrants to the Seller as follows:

1. Organization, Authority and Capacity

1.1. The Buyer is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware. The Buyer has the full power and authority necessary to (i) execute, deliver and perform its obligations under the Closing Documents to be executed and delivered by it, and (ii) carry on its business as it has been and is now being conducted and to own and lease the properties and assets which it now owns or leases. Buyer is duly qualified to do business and is in good standing in each jurisdiction in which a failure to be so qualified or in good standing would have a material adverse effect on its ability to perform its obligations under the Closing Documents.

2. Authorization and Validity

2.1. The execution, delivery and performance of the Closing Documents to be executed and delivered by Buyer and C.O.G. have been duly authorized by all necessary action by Buyer and C.O.G. The Closing Documents to be executed and delivered by Buyer and C.O.G. have been or will be, as the case may be, duly executed and delivered by Buyer and C.O.G. and constitute or will constitute the legal, valid and binding obligations of Buyer and C.O.G., enforceable in accordance with their respective terms except for the Enforceability Exceptions.

3. Absence of Conflicting Agreements or Required Consents

3.1. The execution, delivery and performance by each of Buyer and C.O.G. of the Closing Documents to be executed and delivered by it: (i) do not require the consent of or notice to any governmental or regulatory authority or any other third party; (ii) will not conflict with any provision of its charter or bylaws; (iii) will not conflict with or result in a violation of any law, ordinance, regulation, ruling, judgment, order or injunction of any court or governmental instrumentality to which it is a party or by which it or any of its respective properties is bound; (iv) will not conflict with, constitute grounds for termination of, result in a breach of, constitute a default under, require any notice under, or accelerate or permit the acceleration of any performance required by the terms of any agreement, instrument, license or permit to which it is a party or by which any of its properties are bound, and (v) will not create any Encumbrances upon any of its assets or properties.

4. Statements True and Correct

4.1. No representation or warranty made herein by the Buyer or C.O.G., nor in any statement, certificate or instrument executed and delivered to the Seller by Buyer or C.O.G. pursuant to any Closing Document contains or will contain any untrue statement of material fact or omits or will omit to state a material fact necessary to make these statements contained therein not misleading in light of the circumstances in which they were made.

5. Litigation, Etc.

5.1 Except as listed on Buyer Disclosure Schedule hereto, there are no claims, lawsuits, actions, arbitrations, administrative or other proceedings pending against C.O.G. relating to or which in any way could affect the C.O.G.'s ability to conduct its business after the Closing in substantially the same manner as heretofore conducted. Except as listed on Buyer Disclosure Schedule, to the knowledge of the Buyer, no such matter described in the previous sentence is threatened and there is no basis for any such action, and (ii) there are no governmental or administrative investigations or inquiries pending that involve C.O.G. or any of its affiliates. Except as listed in Buyer Disclosure Schedule, there are no judgments against or consent decrees binding on C.O.G. or any of its affiliates.

6. No Violation of the Law

6.1. Neither Buyer C.O.G. is not currently in material violation of any applicable local, state or federal law, order, injunction or decree, or any other requirement of any governmental body, agency or Regulatory Authority or court binding on it, or relating to its property or business.

6.2. Neither Buyer nor C.O.G. is not currently subject to any material fine, penalty, liability or disability as the result of a failure to comply with any requirement of federal, state or local law nor has Buyer or C.O.G. received any notice of such non-compliance.

7. Constitutional and Corporate Documents

7.1. True and correct copies of the certificate or articles of incorporation and all amendments thereto and bylaws of C.O.G. are annexed to the Buyer's Disclosure Schedule.

8. Capitalization and Ownership of Capital Stock.

8.1 As of Closing Date, the authorized capital stock of C.O.G. consists of 70,000,000 shares of authorized common stock having par value of $.001 each, 5,000,000 shares of Preferred Stock having par value of $.001 each, of which 24,420,230 shares of common stock, 4,915,000 shares of Preferred Stock have been duly and validly issued and are all fully paid and non-assessable at Closing Date. As of Closing Date the Consideration Shares will represent ___ percent of the issued and outstanding shares of C.O.G. on a fully diluted basis.

8.2. Except as is disclosed in the Buyer's Disclosure Schedule, C.O.G. does not have any obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof.

8.3 All dividends or distributions declared, made or paid by C.O.G. have been declared, made or paid in accordance with its articles of incorporation and bylaws, applicable legislation and any agreements or arrangements made with any third party regulating the payment of dividends and distributions.

9. Financial Statements

9.1. The audited financial statements of the C.O.G. for the year ended 31 December 2005 and the interim period ended 30 September 2006 ("Buyer Financial Statements") have been prepared in good faith in accordance with all applicable laws (including state and federal laws) and present fairly in all material respects the financial conditions and operating results of C.O.G. as of the dates and for the periods indicated therein. Except as set forth in the such financial statements, Buyer has no material liabilities or obligations, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to September 30, 2006, (ii) obligations under contracts and commitments incurred in the ordinary course of business and (iii) liabilities and obligations of a type or nature not required under generally accepted accounting principles to be reflected in the Financial Statements, which, in all such cases, individually and in the aggregate would not have a material adverse effect on Buyer.

10. Taxes

10.1. Except as listed in the Buyer's Disclosure Schedule, or as reflected in the Buyer's Financial Statements there does not exist any liability for Taxes which may be asserted by any Regulatory Authority with responsibility for Taxes against, and no Lien or other encumbrance for Taxes will attach to, Buyer, C.O.G. or any of their properties other than Taxes due in respect of periods for which Tax Returns are not yet due and for which adequate accruals have been made in the Buyer's Financial Statements.

10.2. All Tax Returns required to be filed by Buyer and C.O.G. in the past 6 years have been filed (other than Tax Returns for which extensions to file have been granted) with the appropriate governmental agencies in all jurisdictions in which such Tax Returns are required to be filed, all of which are true, correct and complete in all material respects, and all amounts shown as owing thereon have been paid.

10.3. Except as listed on the Buyer's Disclosure Schedule, neither Buyer nor C.O.G. has received notice of any Tax Claims being asserted or any proposed assessment by any taxing authority and no Tax Returns of Buyer or C.O.G. has been audited by the Internal Revenue Service (the "IRS") or the appropriate state agencies for any fiscal year or period ended prior to the date hereof, and neither Buyer nor C.O.G. is presently under, nor have they received notice of any, contemplated investigation or audit by the IRS or any state agency concerning any fiscal year or period ended prior to the date hereof. Except as listed on the Buyer's Disclosure Schedule, neither Buyer nor C.O.G. has executed any extension or waivers of any statute of limitations on the assessment or collection of any Tax due that is currently in effect.

10.4. Each of Buyer and C.O.G. has withheld or collected from each payment made to each of its employees the amount of Taxes required to be withheld or collected therefrom and Buyer and C.O.G. have paid the same to the proper tax depositories or collecting authorities.

11. Licenses and Authorizations

11.1 Each of Buyer and C.O.G. holds all valid licenses and other rights, accreditations, permits and authorizations required by law, ordinance, regulation or ruling of any Regulatory Authorities necessary to operate its business as now conducted to the extent failure to obtain such licenses, rights, accreditations, permits and/or authorizations would not have a material adverse effect on Buyer or C.O.G.

12. Connected Party Transactions

12.1 Except as set forth in the Buyer's Disclosure Schedules, there are no existing arrangements or proposed transactions between C.O.G, and (i) any officer or director of C.O.G., shareholder holding ten percent (10%) or more of the beneficial ownership of the capital stock of C.O.G. or any member of the immediate family of any of the foregoing persons (such officers, directors, shareholders and family members being hereinafter individually referred to as a "**Buyer Connected Party**"), (ii) any business (corporate or otherwise) which a Buyer Connected Party owns, or controls directly or indirectly, or in which a Buyer Connected Party has an ownership interest or (iii) between any Buyer Connected Party and any business (corporate or otherwise) with which C.O.G. regularly does business.

Schedule 8: Pledge Agreement

STOCK PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT dated [..] ("**Agreement**") between Coda Octopus (U.S) Holdings, Inc (the **"Pledgor"**), and the persons shown in Schedule A hereto along with the Unaccredited Sellers (the **"Pledgees"**).

RECITALS

WHEREAS the Pledgor is obligated and indebted to the Pledgees in the principal amount of US$700,000 pursuant to and as provided in a Stock Purchase Agreement ("**SPA**") **and the Unaccredited Stock Purchase Agreements** ("**Indebtedness Agreements"**) between the Pledgor and the Pledgees dated and a certain Promissory Note dated […] and Convertible Promissory Notes in favour of the Unaccredited Sellers dated […] made and delivered by the Pledgor to the Pledgees in such principal (the **"Note"**); and

WHEREAS the Pledgor is the owner of the entire issued and outstanding capital stock of Miller & Hilton, Inc a Utah corporation (the "**Company**")and which comprise the shares of common stock shown in Annex 2 hereto; and

WHEREAS in order to induce the Pledgees to enter into Indebtedness Agreement Pledgor is entering into this Pledge Agreement to provide collateral security for certain of its obligations under the Indebtedness Agreements (specifically the Deferred Cash Consideration as is defined in the SPA and the Deferred Cash Consideration and each Convertible Note as defined in the Unaccredited Stock Purchase Agreements);

NOW, THEREFORE, in consideration of the premises and the mutual promises contained herein, the parties hereto agree as follows:

Section 1. Defined Terms

"**Company**" shall mean Miller and Hilton, Inc a Utah corporation having its address at 2001 South 3480 West, Salt Lake City, Utah 84104 and in whose shares the Security Interest (as is defined in Section 2, the subject matter of this Agreement, is granted.

"**Collateral**" shall mean the Pledged Securities and all proceeds of the Pledged Securities.

"**Code**" shall mean the Uniform Commercial Code as in effect from time to time in Utah.

"**Default**" shall mean any of the following events described in Section 11 hereof.

"**Obligations**" shall mean (a) all principal of, and interest on, each Note including the Convertible Notes and any extension, renewal or replacement thereof, (b) liabilities of the Pledgor under this Agreement, and (c) all of the foregoing cases whether due or to become due, and whether now existing or hereafter arising or incurred.

"**Pledged Securities**" shall mean the shares of common stock in the capital of the Company evidenced by share certificate numbers […] and details of which are set forth in Annex [..] hereto and which is owned by the Pledgor.

Section 2. Pledge

To secure the due and punctual payment and performance of all the Obligations, the Pledgor hereby pledges to the Pledgees and grants to the Pledgees a security interest (the "**Security Interest**") in the Collateral;

TO HAVE AND TO HOLD the Collateral, together with all rights, titles, interests, privileges and preferences appertaining or thereto, unto the Pledgees, its successors and assigns, forever, subject, however, to the terms, covenants and conditions hereafter set forth.

Section 3. Representations and Warranties.

(a) The Pledgor represents and warrants as follows:

(i) The Pledgor owns all of the Pledged Securities, free and clear of any liens, encumbrance, charge or security interest of any nature whatsoever, other than the Security Interest granted herein.

(ii) All shares of stock included in the Pledged Securities are duly authorized and validly issued, fully paid, non-assessable and subject to no options to purchase or similar rights of any person or entity.

(iii) This Pledge Agreement has been duly authorized, executed and delivered by the Pledgor and constitutes a valid and binding obligation of the Pledgor. Upon delivery of the Pledged Securities to the Pledgees hereunder, the Pledgees will have valid and perfected security interests in the Collateral subject to no prior lien. No registration, recordation or filing with any governmental body, agency or official is required in connection with the execution or delivery of this Pledge Agreement, or necessary for the validity or enforceability hereof or for the perfection of the security interests granted herein. The execution, delivery, performance and enforcement of this Pledge Agreement do not and will not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Pledgor or the Company or any person controlling the Company or the Pledgor or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Pledgor or the Company or any person controlling the Pledgor or result in the creation or imposition of any lien (other than the security interests granted herein) upon any asset of the Pledgor or the Company.

(b) Each Pledgee, severally and not jointly, represents and warrants as follows:

(i) Such Pledgee has the power and authority and the legal right to execute and deliver and perform its obligations under this Agreement and has taken all necessary action appropriate to its form of organization to authorize such execution, delivery and performance.

(ii) This Agreement constitutes a legal, valid and binding obligation of such Pledgee.

(iii) The execution, delivery, performance and enforcement of this Pledge Agreement do not and will not contravene, or constitute a default under, any provision of applicable law or regulation or any provision of its organizational documents, judgment, injunction, order, decree or other instrument binding upon such Pledgee. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority is required on the part of such Pledgee to authorize, or is required in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, this Agreement. There are no actions, suits or proceedings pending or, to its knowledge, threatened against or affecting it or any of its properties before any court or arbitrator, or any governmental department, board, agency or other instrumentality which, if determined adversely to it, would have a material adverse effect on its business, operations, property or condition (financial or otherwise) or on its ability to perform its obligations hereunder.

Section 4. Delivery of Pledged Securities.

Upon execution of this Agreement, the certificates evidencing all of the Pledged Securities shall be delivered to the Pledgees by the Pledgor pursuant hereto shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, with signatures appropriately guaranteed, and accompanied in each case by any required transfer tax stamps, all in form and substance reasonably satisfactory to the Pledgees.

Section 5. Further Assurances.

The Pledgor will, at its expense and in such manner and form as the Pledgees may reasonably require or may deem advisable, execute, deliver all further instruments and documents and take all further action that may be necessary, advisable or that the Pledgees may reasonably request for the purpose of perfecting and protecting the Security Interest or to enable the Pledgees to exercise and enforce its rights and remedies hereunder with respect to any Collateral including, but not limited to, the filing of financing statements with the Utah Department of Commerce, Division of Corporations and Commercial Code.

Section 8. Right to Receive Distributions on Collateral.

Unless a Default shall have occurred and be continuing, the Pledgor shall have the right to receive and to retain all dividends, interest and other payments and distributions made upon or with respect to the Collateral.

Section 9. Right to Vote Pledged Securities.

Unless a Default shall have occurred and be continuing, the Pledgor shall have the right to vote and to give consents, ratifications and waivers with respect to the Collateral.

If a Default shall have occurred and be continuing, the Pledgees shall have the right to the extent permitted by law, and the Pledgor shall take all such action as may be necessary or appropriate to give effect to such right, to vote and to give consents, ratifications and waivers, and take any other action with respect to all the Pledged Securities with the same force and effect as if the Pledgees were the absolute and sole owner thereof

Section 10. General Authority

The Pledgor hereby irrevocably appoints the Pledgees its true and lawful attorney, with full power of substitution, for the sole use and benefit of the Pledgees, to the extent permitted by law to exercise, at any time and from time to time while Default has occurred and is continuing, all or any of the following powers with respect to all or any of the Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due upon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto, and

(c) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof, as fully and effectually as if the Pledgees were the absolute owner thereof;

provided that the Pledgees shall give the Pledgor not less than thirty (30) days' prior written notice of the time and place of a sale or other intended disposition of any of the Collateral.

Section 11. Default.

(a) The occurrence of any of the following shall constitute a Default hereunder: (i) the failure of the Pledgor to pay when due of any of the Obligations after taking into consideration any applicable cure periods; (ii) any representation or warranty of the Pledgor contained herein or given pursuant hereto shall be untrue in any material respect; (iii) the Pledgor shall fail to perform any material agreement of the Pledgor contained herein; (iv) or the Company becomes insolvent or it is unable to pay its debts as they fall due; (v) make an assignment for benefit of creditors, institute any insolvency or bankruptcy proceeding, or any involuntary proceeding shall be instituted against the Company in insolvency or bankruptcy and such involuntary proceeding shall be consented to or acquiesced in by the Pledgor or shall not have been dismissed within thirty (30) days after the same shall have been instituted, or a receiver shall be appointed for any part of the Company's property and said receivership shall be consented to or acquiesced in by the Pledgor or shall continue for a period of thirty (30) consecutive days.

(b) Upon the occurrence of a Default and following the Pledgees giving written notice of the Default to the Pledgor and after, in the case of clauses (a)(ii) and (a)(iii) only, the expiry of a 30 day cure period the Pledgor has failed to remedy the Default, the Pledgees may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Code(whether or not the Code applies to the affected Collateral) and may, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or any of the Pledgees's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Creditor may reasonably believe are commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' prior notice to the Pledgor of the time and place of any public sale or the time after which ay private sale is to be made shall constitute reasonable notification.

(c) The Pledgor agrees that in any sale of any of the Collateral whenever a Default hereunder shall have occurred and be continuing, the Pledgees is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that such prospective bidders and purchasers have certain qualifications, and restrict such prospective bidders and purchasers to persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain any required approval of the sale or of the purchaser by any governmental regulatory authority or official, and the Pledgor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Pledgees be liable nor accountable to the Pledgor for any discount allowed by the reason of the fact that such Collateral is sold in compliance with any such limitation or restriction.

Section 12. Termination of the Security Interest and Release of Collateral.

Upon the repayment in full of the Obligations, the Security Interest shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Pledgees will, execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination or the release of such Collateral.

Section 13. Notices.

All notices, communications and distributions hereunder shall be given or made as to the Pledgor or the Pledgees, to it at its address or telefax number set forth on the signature pages hereof, or at such other address as the addressee may hereafter specify. All notices, requests and other communications shall be in writing when delivered at the address specified in this Section.

Section 14. Waivers, Non-Exclusive Remedie*s*.

This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only expressly in writing signed by the parties hereto. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to either of the parties. All rights and remedies of either of the parties hereto shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Pledgees' or Pledgor's option, as the case may be, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

Section 15. Changes in Writing.

Neither this Pledge Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

Section 16. Utah Law.

This Pledge Agreement shall be construed in accordance with and governed by the internal laws of the State of Utah, except as otherwise required by mandatory provisions of law and except to the extent that remedies provided by the laws of any jurisdiction other than Utah are governed by the laws of such jurisdiction.

Section 17. Severability.

If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (i) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Pledgor in order to carry out the intentions of the parties hereto as nearly as may be possible; and (ii) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

[SIGNATURE PAGE FOLLOWS]

C.O.G. acknowledges that Pledgor was formed for, amongst other purposes, the purchasing the Shares, and as an inducement to Pledgee to enter in to this Agreement, C.O.G. hereby agrees to guarantee the performance of all of Pledgor's obligations under this Agreement and any documents, instruments, agreements and understandings related hereto. In the event of any dispute arising out of or in connection with this guaranty, the non-prevailing party shall pay the reasonable legal fees incurred by the prevailing party in connection with such suit.

CODAOCTOPUS GROUP, INC.

By: _____

Name: Jason Reid
Title: President

ANNEX TO STOCK PLEDGE AGREEMENT

Identification of the Pledged Securities

Name of Issuer	Class	Certificate Number	Number of Shares

Schedule 9 Apportionment of Purchase Price

Seller´s name, address and fax number	**N o . of Sale Shares**	1. Cash Consideration **2. Deferred Cash Consideration**	**Number of Coda Consideration Shares**
Mr. Brent Miller	316	1. $628,855.70 2. $550,248.80	451,990
Mr. Craig Adamson	11	1. $21,890.55 2. 19,154.23	15,733.83
Mr. James Adamson	5	1. $9,950.24 2. $8,706.46	7,151.74
Mr Scott DeBo	40	1. $79,601.99 2. $69,651.74	57,213.93

Schedule 10 Property

CERTIFICATE OF INCORPORATION
OF
CODA OCTOPUS GROUP, INC.

ARTICLE I
Name

The name of the Corporation is Coda Octopus Group, Inc.

ARTICLE II
Registered Office and Agent

The address of its registered office in the State of Delaware is Trolley Square, Suite 26 C, Wilmington, County of Newcastle, State of Delaware. The name of its registered agent at such address is Inc. Plan (USA), Inc.

ARTICLE III
Purposes

The purpose for which the Corporation is organized is to transact all lawful business for which corporations may be incorporated pursuant to the laws of the State of Delaware. The Corporation shall have all the powers of a corporation organized under the General Corporation Law of the State of Delaware

ARTICLE IV
Capital Stock

A. *Number and Designation*. The Corporation shall have authority to issue 75 million shares of capital stock, of which 70 million shall be shares of common stock, par value $0.001 per share ("Common Stock") and 5 million shall be shares of preferred stock, par value $0.001 per share ("Preferred Stock"). Upon payment of consideration such shares shall be deemed to be fully paid and non-assessable.

B. *Common Stock*. Except as otherwise required by law, the holders of Common Stock will be entitled to one vote per share on all matters to be voted on by the Corporation's shareholders.

C. *Serial Preferred Stock.* The board of directors of the Corporation is authorized, by resolution from time to time adopted, to provide for the issuance of serial preferred stock in series and to fix and state the powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series, and the qualifications, limitation or restrictions

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:25 PM 07/13/2004
FILED 03:25 PM 07/13/2004
SRV 040513806 - 3828185 FILE

ARTICLE V
Repurchase of Shares

The Corporation may from time to time, pursuant to authorization by the board of directors of the Corporation and without action by the stockholders, purchase or otherwise acquire shares of any class, bonds, debentures, notes, scrip, warrants, obligations, evidences or indebtedness, or other securities of the Corporation in such manner, upon such terms, and in such amounts as the board of directors shall determine; subject, however, to such limitations or restrictions, if any, as are contained in the express terms of any class of shares of the Corporation outstanding at the time of the purchase or acquisition in question or as are imposed by law.

ARTICLE VI
Stockholders

A. *Action by Written Consent* Action required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of stockholders may be effected by written consent of stockholders in lieu of a meeting of stockholders, only by the vote of the holders of not less than 2/3 of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

B. *Special Meetings* Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the holders of not less than 1/2 of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

C. *Place of Meetings* Meetings of stockholders may be held at such place as the by-laws may provide.

ARTICLE VII
Notice for Nominations and Proposals

Nominations for the election of directors and proposals for any new business to be taken up at any annual or special meeting of stockholders may be made by the board of directors of the Corporation or by any stockholder of the Corporation entitled to vote generally in the election of directors.

ARTICLE VIII
Directors

A *Number*. The number of directors of the Corporation shall be such number, not less than one nor more than nine (exclusive of directors, if any, to be elected by holders of preferred stock of the Corporation), as shall be provided from time to time in a resolution adopted by the board of directors, provided that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director, and provided further that no action shall be taken to decrease or increase the number of directors from time to time unless at least two-thirds of the directors then in office shall concur in said action. Exclusive of directors, if any, elected by holders of preferred stock, vacancies in the board of directors of the Corporation, however caused, and newly created directorships shall be filled by a vote of two-thirds of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of the class to which the director has been chosen expires and when the director's successor is elected and qualified.

B. *Directors Elected by Preferred Stockholders*. Whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the board of directors shall include said directors so elected and not be in addition to the maximum number of directors fixed as provided in this Article VIII. Notwithstanding the foregoing, and except as otherwise may be required by law, whenever the holders of any one or more series of preferred stock of the Corporation elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

ARTICLE IX
Removal of Directors

Notwithstanding any other provision of this Certificate or the by-laws of the Corporation, any director or all the directors of a single class (but not the entire board of directors) of the Corporation 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 Corporation 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 Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the preceding provisions of this Article IX shall not apply with respect to the director or directors elected by holders of preferred stock.

ARTICLE X
Indemnification

Any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (whether or not by or in the right of the corporation) by reason of the fact that he is or was a director, officer, incorporator, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, incorporator, employee, partner, trustee, or agent of another corporation, partnership, joint venture, trust, or other enterprise (including an employee benefit plan), shall be entitled to be indemnified by the corporation to the full extent then permitted by law against expenses (including counsel fees and disbursements), judgments, fines (including excise taxes assessed on a person with respect to an employee benefit plan), and amounts paid in settlement incurred by him in connection with such action, suit, or proceeding. Such right of indemnification shall inure whether or not the claim asserted is based on matters which antedate the adoption of this Article X. Such right of indemnification shall continue as to a person who has ceased to be a director, officer, incorporator, employee, partner, trustee, or agent and shall inure to the benefit of the heirs and personal representatives of such a person. The indemnification provided by this Article X shall not be deemed exclusive of any other rights which may be provided now or in the future under any provision currently in effect or hereafter adopted of the by-laws, by any agreement, by vote of stockholders, by resolution of disinterested directors, by provisions of law, or otherwise.

ARTICLE XI
Limitations on Directors' Liability

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except: (A) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (B) for acts or omissions that are not in good faith or that involve intentional misconduct or a knowing violation of law, (C) under Section 174 of the General Corporation Law of the State of Delaware, or (D) for any transaction from which the director derived any improper personal benefit. If the General Corporation law of the State of Delaware is amended after the date of filing of this Certificate to further eliminate or limit the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE XII
Amendment of By-laws

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Corporation is expressly authorized to adopt, repeal, alter, amend and rescind the by-laws of the Corporation by a vote of two-thirds of the board of directors. Notwithstanding any other provision of this Certificate or the by-laws of the Corporation, and in addition to any affirmative vote required by law (and notwithstanding the fact that some lesser percentage may be specified by law), the by-laws shall be adopted, repealed, altered, amended or rescinded by the stockholders of the Corporation only by the vote of the holders of not less than 2/3 of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors cast at a meeting of the stockholders called for that purpose (provided that notice of such proposed adoption, repeal, alteration, amendment or rescission is included in the notice of such meeting), or, as set forth above, by the board of directors.

ARTICLE XIII
Amendment of Certificate of Incorporation

Subject to the provisions hereof, the Corporation reserves the right to repeal, alter, amend or rescind any provision contained in this Certificate in the manner now or hereafter prescribed by law, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing at any time and from time to time, the provisions set forth in Articles VII, VIII, IX, X, XI, XII and this Article XIII may be repealed, altered, amended or rescinded in any respect only if the same is approved by the affirmative vote of the holders of not less than 2/3 of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

ARTICLE XIV
INCORPORATOR

The name and address of the incorporator is:
Caroline Quigley
Trolley Square
Suite 26 C
Wilmington, Delaware 19806

I, THE UNDERSIGNED, being the incorporator, for the purpose of forming a corporation pursuant to the General Corporation Law of Delaware, do make and file this Certificate of Incorporation, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set my hand this 12th day of July, 2004.

Caroline Quigley,
Incorporator

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:17 AM 06/07/2006
FILED 11:17 AM 06/07/2006
SRV 060549165 - 3828185 FILE

CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS OF PREFERRED STOCK OF CODA OCTOPUS GROUP, INC.

Coda Octopus Group, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Company"), pursuant to the authority conferred upon the Board of Directors by its Certificate of Incorporation, the Board of Directors in a meeting dated November 30th, 2005 duly adopted resolutions approving the statement of the Certificate of Designations, Preferences and Rights of Series A Preferred Stock of the Company creating 50,000 Shares of 12% Series A Preferred Stock as follows:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Company be and it is hereby created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount.

There shall be a series of 50,000 shares of the preferred stock of the Company which shall be designated as "Series A Preferred Stock." Each share of Series A Preferred Stock shall be denominated into "Dollar Preferred" or "Sterling Preferred" depending on whether the shares were purchased in US Dollars or Pounds Sterling at $100 or £100 respectively.

Section 2. Dividends and Distributions.

(a) The holders ("the Holders") of shares of Series A Preferred Stock, in preference to the holders of shares of Common Stock, $.001 par value per share (the "Common Stock"), of the Company and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, Dividends will be paid on semi-annually on April 30th and October 31st, (each such date being referred to herein as a "Dividend Payment Date"), commencing on the first Dividend Payment Date after the first issuance of shares of Series A Preferred Stock in an amount per share (rounded to the nearest cent) equal to 12% per annum payable in US dollars or Pounds Sterling at the rate of $1.7689/pound, depending on the currency in which the shares were issued. At the option of each Holder, dividends may be issued in whole or in part in shares of the common stock of the Company valued at the average closing price for the ten trading days preceding the dividend date.

(b) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the date of issue of such shares. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or

distribution declared thereon, which record date shall be not more than sixty days prior to the date fixed for the payment thereof.

Section 3. Voting Rights.

The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company.

(b) Except as otherwise provided, in the Company's Certificate of Incorporation or by law, the holders of shares of Series A Preferred Stock, the holders of shares of Common Stock, and the holders of shares of any other capital stock of the Company having general voting rights, shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(c) Except as otherwise set forth herein or in the Company's Certificate of Incorporation, and except as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(a) Whenever dividends or distributions payable on the Series A Preferred Stock are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Company shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted in Section 4(a)(iv) below, redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Company ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by

Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 8. Conversion and Redemption.

Each share of Series A Preferred Stock may be converted, at the option of the Holder, into 100 Shares of the Common Stock if Dollar Denominated and 177 Shares if Sterling denominated for a term of seven years from the date of issuance.

Shares of Series A Preferred Stock may be redeemed by the Company at their purchase price plus any accrued but unpaid dividends commencing one year after the issue date in the event the closing price of the Common Stock on the market on which it trades is at least $3.00 for the twenty trading days prior to the receipt by each Holder of a notice of redemption. Holders may elect to sell their Shares of Series A Preferred Stock or convert their shares into shares of the Company's Common Stock between the time of the receipt of such written notice and ten business days thereafter.

Section 9. Ranking.

The Series A Preferred Stock shall rank senior to all other series of the Company's Preferred Stock, any, as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment.

The Certificate of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect it adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Preferred Stock voting separately as a class.

Section 11. Fractional Shares.

Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock

IN WITNESS WHEREOF, Coda Octopus Group, Inc. has caused this Certificate of Designations, Preferences and Rights of Cumulative Preferred Stock to be executed by its President and attested by its Secretary this 18th day of April, 2006.

Coda Octopus Group, Inc.

By: _____
Jason Reid,
President

Sworn before me this 18th day of April, 2006

Notary: _____

ROSE M. SMALL
Notary Public, State of New York
No. 01SM6108336
Qualified in New York County
My Commission Expires April 12, 2010

State of Delaware
Secretary of State
Division of Corporations
Delivered 02:17 PM 04/03/2007
FILED 02:17 PM 04/03/2007
SRV 070393997 - 3828185 FILE

CERTIFICATE OF AMENDMENT
of
CERTIFICATE OF DESIGNATION
of
SERIES A PREFERRED STOCK
of

CODA OCTOPUS GROUP, INC

Pursuant to Section 151 of the Delaware General Corporation Law

The undersigned, Jason Reid, President of Coda Octopus Group, Inc., a Delaware corporation (the "Corporation"), DOES HEREBY CERTIFY THAT the following resolution, amending the rights attaching to Series A Preferred Stock was duly adopted by the Board of Directors of the Corporation (the "Board") on April 2, 2007 and that all holders of Series A Preferred Stock have unanimously consented to the amendments set forth in the resolutions herein.

WHEREAS, the Board has determined it to be in the best interests of the Corporation and its stockholders to amend the Certificate of Designation of Series A Preferred Stock subject to obtaining the unanimous consent of all existing holders of Series A Preferred Stock.

WHEREAS, all the existing holders of Series A Preferred Stock have unanimously and irrevocably consented to the amendments set forth herein.

NOW, THEREFORE, BE IT RESOLVED, that the Certificate of Designation be amended as follows:

Paragraph 2 of Section 8 is hereby deleted in its entirety and replaced with the following:

Section 8. Conversion

Shares of Series A Preferrad Stock may, at the option of the Company, be converted into such number of fully paid and non-assessable shares of Common Stock as is equal to their purchase price plus any accrued but unpaid dividends commencing one year after the issue date in the event the closing price of the Common Stock on the market on which it trades is at least $3.00 for the twenty trading days prior to the receipt by each Holder of a notice of conversion.

IN WITNESS WHEREOF, said Corporation has caused this Certificate of Amendment to Certificate of Designation of Series A Preferred Stock to be signed by its President on this 3rd day of April 2007.

Jason Reid
President

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:17 AM 06/07/2006
FILED 11:18 AM 06/07/2006
SRV 060549169 - 3828185 FILE

CODA OCTOPUS GROUP, INC.

CERTIFICATE OF THE POWERS, DESIGNATIONS,

PREFERENCES AND RIGHTS OF THE

SERIES B CONVERTIBLE PREFERRED STOCK,

PAR VALUE $0.001 PER SHARE

Pursuant to Section 151 of the Delaware General Corporation Law

The undersigned, Jason Reid, President of Coda Octopus Group, Inc., a Delaware corporation (the "Corporation"), DOES HEREBY CERTIFY that the following resolution, creating a series of 50,000 shares of Preferred Stock was duly adopted by the Board of Directors, on June 2, 2006:

WHEREAS, the Board of Directors is authorized, within the limitations and restrictions stated in the Certificate of Incorporation of the Corporation, to provide by resolution or resolutions for the issuance of shares of Preferred Stock, par value $0.001 per share, of the Corporation, in one or more classes or series with such rights, powers, designations, preferences and other special rights, and qualifications, limitations or restrictions as shall be stated and expressed in the resolution or resolutions providing for the issuance thereof adopted by the Board of Directors, and as are not stated and expressed in the Certificate of Incorporation, or any amendment thereto, including (but without limiting the generality of the foregoing) such provisions as may be desired or matters as may be fixed by resolution or resolutions of the Board of Directors under the General Corporation Law of the State of Delaware; and

WHEREAS, it is the desire of the Board of Directors, pursuant to its authority as aforesaid, to authorize and fix the terms of a series of Preferred Stock and the number of shares constituting such series.

NOW, THEREFORE, BE IT RESOLVED:

1. Designation and Number of Shares. There shall be hereby created and established a series of Preferred Stock designated as "Series B Convertible Preferred Stock" (the "Series B Preferred Stock"). The authorized number of shares of Series B Preferred Stock shall be 50,000. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in Section 9 below.

2. Rank. The Series B Preferred Stock shall, with respect to the payment of (i) the Liquidation Payment in the event of a Liquidation, (ii) the Sale Payment in the event of a Sale Transaction, (iii) dividends, rank junior to the Corporation's issued and outstanding Series A Preferred Stock and senior to (x) all classes of common stock of the Corporation (including, without limitation, the Common

BY-LAWS

OF

_____

A Delaware Corporation

ARTICLE I - OFFICES

The registered office of the Corporation in the State of Delaware shall be located in the City and State designated in the Certificate of Incorporation. The Corporation may also maintain offices at such other places within or without the State of Delaware as the Board of Directors may, from time to time, determine.

ARTICLE II - MEETING OF SHAREHOLDERS

Section 1 - Annual Meetings: (Section 211)

The annual meeting of the shareholders of the Corporation shall be held at the time fixed, from time to time, by the Directors, at the time fixed from time to time by the Directors.

Section 2 - Special Meetings: (Section 211)

Special meetings of the shareholders may be called by the Board of Directors or such person or persons authorized by the Board of Directors and shall be held within or without the State of Delaware.

Section 3 - Court-Ordered Meeting: (Section 211)

The Court of Chancery in this State where the Corporation's principal office is located, or where the Corporation's registered office is located if its principal office is not located in this state, may after notice to the Corporation, order a meeting to be held on application of any Director or shareholder of the Corporation entitled to vote in an annual meeting if an annual meeting has not been held within any thirteen month period, if there is a failure by the Corporation to hold an annual meeting for a period of thirty days after the date designated therefor, or if no date has been designated, for a period of thirteen months after the organization of the Corporation or after its last annual meeting. The court may fix the time and place of the meeting, determine the shares entitled to participate in the meeting, specify a record date for determining shareholders entitled to notice of and to vote at the meeting, prescribe the form and content of the meeting notice, and enter other orders as may be appropriate.

Section 4 - Place of Meetings: (Section 211)

Meetings of shareholders shall be held at the registered office of the Corporation, or at such other places, within or without the State of Delaware as the Directors may from time to time fix. If no designation is made, the meeting shall be held at the Corporation's registered office in the state of Delaware.

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* All references to sections in these By-Laws refer to those sections contained in the Delaware General Corporation law.

Section 5 - Notice of Meetings: (Section 222)

(a) Written or printed notice of each meeting of shareholders, whether annual or special, stating the time when and place where it is to be held, shall be served either personally or by first class mail, by or at the direction of the president, the secretary, or the officer or the person calling the meeting, not less than ten or more than sixty days before the date of the meeting, unless the lapse of the prescribed time shall have been waived before or after the taking of such action, upon each shareholder of record entitled to vote at such meeting, and to any other shareholder to whom given notice may be required by law. Notice of a special meeting shall also state the business to be transacted or the purpose or purposes for which the meeting is called, and shall indicate that it is being issued by, or at the direction of, the person or persons calling the meeting. If, at any meeting, action is proposed to be taken that would, if taken, entitle shareholders to dissent and receive payment for their shares pursuant to the Delaware General Corporation Law, the notice of such meeting shall include a statement of that purpose and to that effect. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the shareholder as it appears on the share transfer records of the Corporation.

Section 6 - Shareholders' List: (Section 219)

(a) After fixing a record date for a meeting, the officer who has charge of the stock ledger of the Corporation, shall prepare an alphabetical list of the names of all its shareholders entitled to notice of the meeting, arranged by voting group with the address of, and the number, class, and series, if any, of shares held by each shareholder. The shareholders' list must be available for inspection by any shareholder for a period of ten days before the meeting or such shorter time as exists between the record date and the meeting and continuing through the meeting at the Corporation's principal office, at a place identified in the meeting notice in the city where the meeting will be held, or at the office of the Corporation's transfer agent or registrar. Any shareholder of the Corporation or the shareholder's agent or attorney is entitled on written demand to inspect the shareholders' list during regular business hours and at the shareholder's expense, during the period it is available for inspection.

(b) The Corporation shall make the shareholder's list available at the meeting of shareholders, and any shareholder or the shareholder's agent or attorney is entitled to inspect the list at any time during the meeting or any adjournment.

(c) Upon the willful neglect or refusal of the Directors to produce such a list at any meeting for the election of Directors, such Directors shall be ineligible for election for any office at such meeting.

(d) The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by Section 219 of the Delaware General Corporation Law or the books of the Corporation, or to vote in person or by proxy at any shareholders' meeting.

Section 7 - Quorum: (Section 216)

(a) Except as otherwise provided herein, or by law, or in the Certificate of Incorporation (such Articles and any amendments thereof being hereinafter collectively referred to as the "Certificate of Incorporation"), or for meetings ordered by the Court of Chancery called pursuant to Section 211 of the Delaware General Corporations Law, a quorum shall be present at all meetings of shareholders of the Corporation, if the holders of a majority of the shares entitled to vote on that matter are represented at the meeting in person or by proxy.

(b) The subsequent withdrawal of any shareholder from the meeting, after the commencement of a meeting, or the refusal of any shareholder represented in person or by proxy to vote, shall have no effect on the existence of a quorum, after a quorum has been established at such meeting.

(c) Despite the absence of a quorum at any meeting of shareholders, the shareholders present may adjourn the meeting.

Section 8 - Voting: (Section 212 & 216)

(a) Except as otherwise provided by law, the Certificate of Incorporation, or these Bylaws, any corporate action, other than the election of Directors, the affirmative vote of the majority of shares entitled to vote on that matter and represented either in person or by proxy at a meeting of shareholders at which a quorum is present shall be the act of the shareholders of the Corporation.
(b) Unless otherwise provided for in the Articles of Incorporation of this Corporation, Directors will be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present and each shareholder entitled to vote has the right to vote the number of shares owned by him/her for as many persons as there are Directors to be elected.
(c) Unless otherwise provided for in the Certificate of Incorporation of this Corporation, Directors will be elected by a plurality of the votes by the shares, present in person or by proxy, entitled to vote in the election at a meeting at which a quorum is present and each shareholder entitled to vote has the right to vote the number of shares owned by him/her for as may persons as there are Directors to be elected.
(d) Except as otherwise provided by statute, the Certificate of Incorporation, or these Bylaws, at each meeting of shareholders, each shareholder of the Corporation entitled to vote thereat, shall be entitled to one vote for each share registered in his or her name on the books of the Corporation.

Section 9 - Proxies: (Section 212)

Each shareholder entitled to vote or to express consent or dissent without a meeting, may do so either in person or by proxy, so long as such proxy is executed in writing by the shareholder himself or herself, or by his or her attorney-in-fact thereunto duly authorized in writing. Every proxy shall be revocable at will unless the proxy conspicuously states that it is irrevocable and the proxy is coupled with an interest. A telegram, telex, cablegram, or similar transmission by the shareholder, or a photographic, photostatic, facsimile, shall be treated as a valid proxy, and treated as a substitution of the original proxy, so long as such transmission is a complete reproduction executed by the shareholder. No proxy shall be valid after the expiration of three years from the date of its execution, unless otherwise provided in the proxy. Such instrument shall be exhibited to the Secretary at the meeting and shall be filed with the records of the Corporation.

Section 10 - Action Without a Meeting: (Section 228)

Unless otherwise provided for in the Certificate of Incorporation of the Corporation, any action to be taken at any annual or special shareholders' meeting, may be taken without a meeting, without prior notice and without a vote if a written consent or consents is/are signed by the shareholders of the Corporation having not less than the minimum number of votes necessary to authorize or take such action at a meeting at which all shares entitled to vote thereat were present and voted is delivered by hand or by certified or registered mail, return receipt requested, to the Corporation to its registered office in the State of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of shareholders' meetings are recorded.

Section 11 - Inspectors: (Section 231)

(a) The Corporation shall appoint one or more inspectors, and one or more alternate inspectors, to act at any shareholder' meeting and make a written report thereof, so long as such inspectors sign an oath to faithfully execute their duties with impartiality and to the best of their ability before such meeting. If no inspector or alternate is able to act at the shareholders meeting, the presiding officer shall appoint one or more inspectors to act at the meeting.

*(b) The inspector shall:

(i) ascertain the number of shares entitled to vote and the voting power of each such shareholder;
(ii) determine the shares represented at a meeting and the validity of proxies and ballots;
(iii) count all votes and ballots;
(iv) determine and retain for a reasonable time a disposition record of any challenges made to any of the inspectors' determinations; and
(v) certify the inspectors' determinations of the number of shares represented at the meeting and their count of all votes and ballots.

ARTICLE III - BOARD OF DIRECTORS

Section 1 - Number, Term, Election and Qualifications: (Section 141)
(a) The first Board of Directors and all subsequent Boards of the Corporation shall consist of _____ persons, unless and until otherwise determined by vote of a majority of the entire Board of Directors. The Board of Directors or shareholders all have the power, in the interim between annual and special meetings of the shareholders, to increase or decrease the number of Directors of the Corporation. A Director need not be a shareholder of the Corporation unless required by the Certificate of Incorporation of the Corporation or these Bylaws.

(b) Except as may otherwise be provided herein or in the Certificate of Incorporation, the members of the Board of Directors of the Corporation shall be elected at the first annual shareholders' meeting and at each annual meeting thereafter, unless their terms are staggered in the Certificate of Incorporation of the Corporation or these Bylaws, by a majority of the votes cast at a meeting of shareholders, by the holders of shares entitled to vote in the election.

(c) The first Board of Directors shall hold office until the first annual meeting of shareholders and until their successors have been duly elected and qualified or until there is a decrease in the number of Directors. Thereinafter, Directors will be elected at the annual meeting of shareholders and shall hold office until the annual meeting of the shareholders next succeeding his election, or until his/her prior death, resignation or removal. Any Director may resign at any time upon written notice of such resignation to the Corporation.

*NOTE: Article III Section 1 Subsection (b) of these Bylaws shall not be used in the Corporation's Bylaws unless the Corporation has one or more classes of voting stock that are:
(i) listed on a national exchange; (ii) authorized for quotation on an inter-dealer quotation system of a registered national securities association; or (iii) held by more than two thousand shareholders of record of the Corporation.

Section 2 - Duties and Powers: (Section 141)

The Board of Directors shall be responsible for the control and management of the business and affairs, property and interests of the Corporation, and may exercise all powers of the Corporation, except such as those stated under Delaware State Law, in the Certificate of Incorporation or in these Bylaws, expressly conferred upon or reserved to the shareholders or any other person or persons named therein.

Section 3 - Regular Meetings; Notice:

(a) A regular meeting of the Board of Directors shall be held either within or without the State of Delaware at such time and at such place as the Board shall fix.

(b) No notice shall be required of any regular meeting of the Board of Directors and, if given, need not specify the purpose of the meeting; provided, however, that in case the Board of Directors shall fix or change the time or place of any regular meeting when such time and place was fixed before such change, notice of such action shall be given to each Director who shall not have been present at the meeting at which such action was taken within the time limited, and in the manner set forth in these Bylaws with respect to special meetings, unless such notice shall be waived in the manner set forth in these Bylaws.

Section 4 - Special Meetings; Notice:

(a) Special meetings of the Board of Directors shall be held at such time and place as may be specified in the respective notices or waivers of notice thereof.

(b) Except as otherwise required statute, written notice of special meetings shall be mailed directly to each Director, addressed to him at his residence or usual place of business, or delivered orally, with sufficient time for the convenient assembly of Directors thereat, or shall be sent to him at such place by telegram, radio or cable, or shall be delivered to him personally or given to him orally, not later than the day before the day on which the meeting is to be held. If mailed, the notice of any special meeting shall be deemed to be delivered on the second day after it is deposited in the United States mail, so addressed, with postage prepaid. If notice is given by telegram, it shall be deemed to be delivered when the telegram is delivered to the telegraph company. A notice, or waiver of notice, except as required by these Bylaws, need not specify the business to be transacted at or the purpose or purposes of the meeting.

(c) Notice of any special meeting shall not be required to be given to any Director who shall attend such meeting without protesting prior thereto or at its commencement, the lack of notice to him/her, or who submits a signed waiver of notice, whether before or after the meeting. Notice of any adjourned meeting shall not be required to be given.

(d) Unless otherwise stated in the Articles of Incorporation of the Corporation, the Chairperson, President, Treasurer, Secretary or any two or more Directors of the Corporation may call any special meeting of the Board of Directors.

Section 5 - Chairperson:

The Chairperson of the Board, if any and if present, shall preside at all meetings of the Board of Directors. If there shall be no Chairperson, or he or she shall be absent, then the President shall preside, and in his or her absence, any other Director chosen by the Board of Directors shall preside.

Section 6 - Quorum and Adjournments: (Section 141)

(a) At all meetings of the Board of Directors, or any committee thereof, the presence of a majority of the entire Board, or such committee thereof, shall constitute a quorum for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation, or these Bylaws. (Note: If the Certificate of Incorporation authorizes a quorum to consist of less than a majority, but no fewer than one-third of the prescribed number of Directors as permitted by law except that when a board of one Director is authorized under Section 141 of the Delaware General Corporation Law, then one Director shall constitute a quorum or if the Certificate of Incorporation and/or Bylaws require a greater number than a majority as constituting a quorum then these Bylaws would state that this lesser or greater amount, instead of a majority, will constitute a quorum.)

(b) A majority of the Directors present at the time and place of any regular or special meeting, although less than a quorum, may adjourn the same from time to time without notice, whether or not a quorum exists. Notice of such adjourned meeting shall be given to Directors not present at time of the adjournment and, unless the time and place of the adjourned meeting are announced at the time of the adjournment, to the other Directors who were present at the adjourned meeting.

Section 7 - Manner of Acting: (Section 141)

(a) At all meetings of the Board of Directors, each director present shall have one vote, irrespective of the number of shares of stock, if any, which he may hold.

(b) Except as otherwise provided by law, by the Certificate of Incorporation, or these By Laws, action approved by a majority of the votes of the Directors present at any meeting of the Board or any committee thereof, at which a quorum is present shall be the act of the Board of Directors or any committee thereof.

(c) Any action authorized in writing, made prior or subsequent to such action, by all of the Directors entitled to vote thereon and filed with the minutes of the Corporation shall be the act of the Board of Directors, or any committee thereof, and have the same force and effect as if the same had been passed by unanimous vote at a duly called meeting of the Board or committee for all purposes and may be stated as such in any certificate or document filed with the Secretary of the State of Delaware.

(d) Where appropriate communications facilities are reasonably available, any or all Directors shall have the right to participate in any Board of Directors meeting, or a committee of the Board of Directors meeting, by means of conference telephone or any means of communications by which all persons participating in the meeting are able to hear each other.

Section 8 - Vacancies: (Section 223)

(a) Any vacancy in the Board of Directors occurring by reason of an increase in the number of Directors, or by reason of the death, resignation, disqualification, removal for inability to act as Director, or any other cause, shall be filled by an affirmative vote of a majority of the remaining Directors, though less than a quorum of the Board or by a sole remaining Director, at any regular meeting or special meeting of the Board of Directors called for that purpose except whenever the shareholders of any class or classes or series thereof are entitled to elect one or more Directors by the Certificate of Incorporation of the Corporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the Directors elected by such class or classes or series thereof then in office, or by a sole remaining Director so elected.

(b) If at any time, by reason of death or resignation or other cause, the Corporation shall have no Directors in office, then an officer or any shareholder or an executor, administrator, trustee, or guardian of a shareholder, or other fiduciary entrusted with like responsibility for the person or estate of a shareholder, may call a special meeting of shareholders to fill such vacancies or may apply to the Court of Chancery for a decree summarily ordering an election.

(c) If the Directors of the Corporation constitutes less than a majority of the whole Board, the Court of Chancery may, upon application of any shareholder or shareholders holding at least ten percent of the total number of shares entitled to vote for Directors, order an election to be held, to fill any such vacancies or newly created directorships.

(d) Unless otherwise provided for by statute, the Certificate of Incorporation or these Bylaws, when one or more Directors shall resign from the board and such resignation is effective at a future date, a majority of the Directors, then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote otherwise to take effect when such resignation or resignations shall become effective.

Section 9 - Resignation:

The shareholders may, at any meeting, vote to accept the resignation of any Director.

Section 10 - Removal: (Section 141)

One or more or all the Directors of the Corporation may be removed with or without cause at any time by the shareholders, at a special meeting of the shareholders called for that purpose, unless the Certificate of Incorporation provides that Directors may only be removed for cause, provided however, such Director shall not be removed if the Corporation states in its Certificate of Incorporation that its Directors shall be elected by cumulative voting and there are a sufficient number of shares cast against his or her removal, which if cumulatively voted at an election of Directors would be sufficient to elect him or her. If a Director was elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove that Director.

Section 11 - Compensation: (Section 141)

The Board of Directors may authorize and establish reasonable compensation of the Directors for services to the Corporation as Directors, including, but not limited to attendance at any annual or special meeting of the Board.

Section 12 - Committees: (Section 141)

The Board of Directors, by resolution adopted by a majority of the entire Board, may from time to time designate from among its members one or more committees, and alternate members thereof, as they deem desirable, each consisting of one or more members, with such powers and authority (to the extent permitted by law and these Bylaws) as may be provided in such resolution. Each such committee shall serve at the pleasure of the Board and, unless otherwise stated by law, the Certificate of Incorporation of the Corporation or these Bylaws, shall be governed by the rules and regulations stated herein regarding the Board of Directors.

ARTICLE IV - OFFICERS

Section 1 - Number, Qualifications, Election and Term of Office: (Section 142)

(a) The Corporation's officers shall have such titles and duties as shall be stated in these Bylaws or in a resolution of the Board of Directors which is not inconsistent with these Bylaws. The officers of the Corporation shall consist of an officer whose duty is to record proceedings of shareholders' and Directors' meetings and such other officers as the Board of Directors may from time to time deem advisable. Any officer other than the Chairman of the Board of Directors may be, but is not required to be, a Director of the Corporation. Any two or more offices may be held by the same person.

(b) The officers of the Corporation shall be elected by the Board of Directors at the regular annual meeting of the Board following the annual meeting of shareholders.

(c) Each officer shall hold office until the annual meeting of the Board of Directors next succeeding his election, and until his successor shall have been duly elected and qualified, subject to earlier termination by his or her death, resignation or removal.

Section 2 - Resignation: (Section 142)

Any officer may resign at any time by giving written notice of such resignation to the Corporation.

Section 3 - Removal: (Section 142)

Any officer elected by the Board of Directors may be removed, either with or without cause, and a successor elected by the Board at any time, and any officer or assistant officer, if appointed by another officer, may likewise be removed by such officer.

Section 4 - Vacancies: (Section 142)

A vacancy, however caused, occurring in the Board and any newly created Directorships resulting from an increase in the authorized number of Directors may be filled by the Board of Directors.

Section 5 - Bonds: (Section 142)

The Corporation may require any or all of its officers or Agents to post a bond, or otherwise, to the Corporation for the faithful performance of their positions or duties.

Section 6 - Compensation:

The compensation of the officers of the Corporation shall be fixed from time to time by the Board of Directors.

ARTICLE V - SHARES OF STOCK

Section 1 - Certificate of Stock:

(a) The shares of the Corporation shall be represented by certificates or shall be uncertificated shares.

(b) Certificated shares of the Corporation shall be signed, (either manually or by facsimile), by the Chairperson, Vice-Chairperson, President or Vice-President and Secretary or an Assistant Secretary or the Treasurer or Assistant Treasurer, or any other Officer designated by the Board of Directors, certifying that the number of shares owned by him or her in the Corporation, provided however, that where such

certificate is signed by a transfer agent or an assistant transfer agent or by a transfer clerk acting on behalf of the Corporation and a registrar, any such signature may be a facsimile thereof. In case any officer who has signed or whose facsimile signature has been placed upon such certificate, shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of its issue.

(c) Certificates shall be issued in such form not inconsistent with the Certificate of Incorporation and as shall be approved by the Board of Directors. Such certificates shall be numbered and registered on the books of the Corporation, in the order in which they were issued.

(d) Except as otherwise provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of the same class and series shall be identical.

Section 2 - Lost or Destroyed Certificates:

The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed if the owner:

(a) so requests before the Corporation and has given notice that the shares have been acquired by a bona fide purchaser,

(b) files with the Corporation a sufficient indemnity bond; and

(c) satisfies such other requirements, including evidence of such loss, theft or destruction, as may be imposed by the Corporation.

Section 3 - Transfers of Shares: (Section 201)

(a) Transfers or registration of transfers of shares of the Corporation shall be made on the stock transfer books of the Corporation by the registered holder thereof, or by his attorney duly authorized by a written power of attorney; and in the case of shares represented by certificates, only after the surrender to the Corporation of the certificates representing such shares with such shares properly endorsed, with such evidence of the authenticity of such endorsement, transfer, authorization and other matters as the Corporation may reasonably require, and the payment of all stock transfer taxes due thereon.

(b) The Corporation shall be entitled to treat the holder of record of any share or shares as the absolute owner thereof for all purposes and, accordingly, shall not be bound to recognize any legal, equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

Section 4 - Record Date: (Section 213)

(a) The Board of Directors may fix, in advance, which shall not be more than sixty, nor less than ten days before the meeting or action requiring a determination of shareholders, as the record date for the determination of shareholders entitled to receive notice of, or to vote at, any meeting of shareholders, or to consent to any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividends, or allotment of any rights, or for the purpose of any other action. If no record date is fixed, the record date for a shareholder entitled to notice of meeting shall be at the close of business on the day preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held, or if notice is waived, at the close of business on the day before the day on which the meeting is held.

(b) The Board of Directors may fix a record date, which shall not precede the date upon which the resolution fixing the record date is adopted for shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights of shareholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, provided that such record date shall not be more than sixty days before such action.

(c) The Board of Directors may fix, in advance, a date which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date is fixed and no prior action is required by the Board, the record date for determining shareholders entitled to consent to corporate action in writing without a meeting, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery by hand or by certified or registered mail, return receipt requested, to its registered office in this State, its
principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of shareholders are recorded. If no record date is fixed by the Board of Directors and prior action is required by law, the record date for determining shareholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(d) A determination of shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting.

ARTICLE VI - DIVIDENDS (Section 173)

Subject to applicable law, dividends may be declared and paid out of any funds available therefor, as often, in such amounts, and at such time or times as the Board of Directors may determine.

ARTICLE VII - FISCAL YEAR

The fiscal year of the Corporation shall be fixed, and shall be subject to change by the Board of Directors from time to time, subject to applicable law.

ARTICLE VIII - CORPORATE SEAL [Section 607.0302(2)]

The corporate seal, if any, shall be in such form as shall be prescribed and altered, from time to time, by the Board of Directors.

ARTICLE IX - AMENDMENTS

Section 1 - Initial Bylaws:

The initial Bylaws of the Corporation shall be adopted by the Board of Directors at its organizational meeting.

Section 2 - By Shareholders:

All By-Laws of the Corporation shall be subject to alteration or repeal, and new By-Laws may be made, by a majority vote of the shareholders at the time entitled to vote in the election of Directors even though these Bylaws may also be altered, amended or repealed by the Board of Directors.

Section 3 - By Directors:

The Board of Directors shall have power to make, adopt, alter, amend and repeal, from time to time, By-Laws of the Corporation; however, Bylaws made by the Board may be altered or repealed, and new Bylaws made by the shareholders.

ARTICLE X - WAIVER OF NOTICE: (Section 229)

Whenever any notice is required to be given by law, the Certificate of Incorporation or these Bylaws, the meeting of shareholders, Board of Directors, or committee thereof, or attendance at the meeting by any person, shall constitute a waiver of notice of such meeting, except when the person attends the meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of shareholders, Directors or committee thereof needs to be specified in any written waiver of notice.

ARTICLE XI - INTERESTED DIRECTORS: (Section 144)

No contract or transaction shall be void or voidable if such contract or transaction is between the Corporation and one or more of its Directors or Officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or Officers, are Directors or Officers, or have a financial interest, when such Director or Officer is present at or participates in the meeting of the Board or committee which authorizes the contract or transaction or his/her votes are counted for such purpose, if:

(a) the material facts as to his/her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; or

(b) the material facts as to his/ her relationship or relationships or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or

(c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee or the shareholders. Such interested Directors may be counted when determining the presence of a quorum at the Board of Directors or committee meeting authorizing the contract or transaction.

ARTICLE XII - FORM OF RECORDS: (Section 224)

Any records maintained by the Corporation in its regular course of business, including, but not limited to, its stock ledger, books of account and minute book, may be kept on, or be in the form of punch cards, magnetic tape, photographs, micro-photographs or any other information storage device, provided that the records so kept may be converted into clearly legible written form within a reasonable time. The Corporation shall so convert any of such records so kept upon the request of any person entitled to inspect the same.

RESOLUTIONS ADOPTED BY INCORPORATOR

OF

_____

The undersigned, being the sole Incorporator of the Corporation hereby adopts the following resolutions:

(1) RESOLVED, that a copy of the Certificate of Incorporation of the Corporation, together with the original receipt showing payment of the statutory organization tax and filing fee, be inserted in the Minute Book of the Corporation.

(2) RESOLVED, that the form of First By-Laws submitted to the meeting be, and the same hereby are, adopted as and for the By-Laws of the Corporation, and that a copy thereof be placed in the Minute Book of the Corporation, directly following the Certificate of Incorporation.

(3) RESOLVED, that the following persons be, and they hereby are, elected as Directors of the Corporation, to serve until the first annual meeting of shareholders, and until their successors are elected and qualify:

_____

_____

_____

_____

Dated:_____

_____

Incorporator

Instructions for Organization of a Corporation with Sole Director/Shareholder

A small corporation commonly is comprised of a Sole Director/Shareholder. One must basically follow the same procedure to organize this type of small corporation as it would if this corporation had more than one Director and/or Shareholder. However, there are some documents that are specific to this type of organization that must be highlighted at this time. Specifically, the "Resolution Adopted by the Sole Director/Shareholder" inserted in this booklet as page 1. The Resolution requires close attention to detail when filling out the following information:

1. Corporate Name;
2. Corporate officers: President, Vice President, Secretary and Treasurer. It is important to note, that under Delaware Law one individual may hold any combination of officer positions in a Corporation, except the President may not also be the Secretary, unless there is only one Director/Shareholder. Only then, can the same individual hold any or all of the offices of the Corporation.
3. The name of the Corporations' Treasurer and the name and location of the Financial Institution where he/she is authorized to open up a bank account on behalf of the Corporation.
4. Date;
5. Have Sole Director/Shareholder sign the resolution.

In addition, the share certificate marked "Specimen" should be removed from the certificate book and inserted as Appendix A and a conformed copy of the Banking resolution as Appendix B.

RESOLUTIONS ADOPTED BY SOLE DIRECTOR AND SHAREHOLDER

OF

_____

The undersigned, being the Sole Director/Shareholder of the above corporation, hereby adopts the following resolution:

(1) RESOLVED, that all actions heretofore taken by the Incorporator(s) of the Corporation are adopted, ratified and confirmed by this Director/Shareholder.

(2) RESOLVED, that the form of Bylaws submitted to this meeting be, and they are hereby adopted as the Bylaws of the Corporation.

(3) RESOLVED, that the following person(s) are elected to the office(s) set opposite his/her name, to assume the duties and responsibilities fixed by the Bylaws or by the undersigned as the Sole Director of the Corporation:

President:

Vice President:

Secretary:

Treasurer:

(4) RESOLVED, that the form of seal, an impression of which is hereto affixed in the margin of these minutes, is hereby adopted as the corporate seal for this corporation.

(5) RESOLVED, that the specimen form of certificate is hereby approved and adopted as the certificate representing the shares of this Corporation.

(6) RESOLVED, that _____(treasurer) is hereby authorized to open a bank account on behalf of the Corporation with_____, located at_____, and the resolutions required by the said bank were adopted by the undersigned and attached hereto to these minutes.

(7) RESOLVED, that the Corporation proceed to carry on the business for which it was incorporated.

Dated:_____

_____

Sole Director and Shareholder

WAIVER OF NOTICE OF FIRST MEETING

OF

BOARD OF DIRECTORS

OF

_____

We, the undersigned, constituting all of the Directors of above named Corporation, hereby severally waive all notice of the time, place and date of this organizational meeting of the Directors of the Corporation and any adjournment or adjournments thereof, and consent to the meeting be held at:

Place:

Date:

Time:

We do further severally agree and consent to the transaction thereat of any and all business that may properly come before said meeting.

Dated:_____

_____
Director

_____
Director

_____
Director

MINUTES OF FIRST MEETING

OF

BOARD OF DIRECTORS

OF

_____

The first meeting of the Board of Directors of the above named Corporation was held at:

Date:

Time:

Place:

The following Directors were present, constituting a quorum:

_____

_____

_____

The meeting was called to order by _____.

Upon motion duly made, and seconded, (Name)_____ was elected as Temporary Secretary of the meeting.

The Chairperson then presented to the meeting a true copy of the Certificate of Incorporation of the Corporation, and reported that the original was filed in the Office of the Secretary of State. The Secretary was then instructed to insert the (duplicate/original) Certificate of Incorporation in the Corporate Minute Book.

The Secretary then presented a proposed form of Bylaws for the regulation and management of the business affairs of the Corporation. After review of said Bylaws and upon motion duly made, seconded and unanimously adopted, it was

RESOLVED, that the form of Bylaws of this Corporation shall be adopted and that the Secretary is instructed to cause the same to be inserted in the Corporate Minute Book immediately following the Articles of Incorporation and the Certificate of Incorporation.

The following persons were nominated as officers of the Corporation:

President:

Vice-President:

Secretary:

Treasurer:

Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that each of the forenamed persons elected to the offices set opposite his/her name are to assume the duties and responsibility fixed by the Bylaws or by the Board of Directors of this Corporation.

Upon motion duly made and seconded, the following resolution was unanimously adopted, the following salaries were fixed to be paid until further action by board of Directors:

Title of Officer	Salary per year beginning with the month of _____, _____
_____	_____
_____	_____
_____	_____

The President of the Corporation thereupon assumed the Chair, and the Secretary of the Corporation assumed his/her duties as Secretary of this meeting.

The Secretary then presented to the meeting a form of the proposed seal of the Corporation. Upon motion duly made, seconded and unanimously adopted, the following resolution was unanimously adopted:

RESOLVED, that the form of the corporate seal, an impression of which is hereto affixed, is hereby adopted as the corporate seal for this Corporation, and that an impression thereof be made on the margin of these minutes.

Resolved, that the specimen form of certificate which has been presented to this meeting be, and the same hereby is , approved and adopted as the certificate to represent the shares of this Corporation, and the specimen form of certificate be inserted in the Corporate Minute Book.

Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Board of Directors be and it hereby is authorized in its discretion to issue the shares of the Corporation to the full number of shares authorized by the Certificate of Incorporation in such number, and for such considerations as from time to time shall be determined by the Board of Directors and as may be permitted by law.

The President (or other named officer) recommended that an account be established at _____ Bank. After discussion and upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that _____ Bank (hereinafter called the "Bank") be and hereby is designated a depository of the funds for the Corporation, and the President and Treasurer of the Corporation, jointly are hereby authorized to sign for and on behalf of the Corporation, and any and all checks, drafts or other orders with respect to any funds at any time to the credit of the Corporation with the Bank and/or against any account(s) of the Corporation maintained at any time with the Bank, inclusive of any such checks, drafts or other orders in favor of any time with the bank, inclusive of any such checks,

drafts or other orders in favor of any of the above designated Officers, and that the bank be and is hereby authorized:

(a) to pay the same to the debit of any account of the Corporation then maintained with it;

(b) to receive for deposit to the credit of the Corporation, and/or for collection for the account of the Corporation, and any/all checks, drafts, notes or other instruments for the payment of money, whether or not endorsed by the Corporation; which may be received by it for such deposit and/or collection, it being understood that each such item shall be deemed to have been unqualifiedly endorsed by the Corporation, and

(c) to receive, as the act of the Corporation, reconcilement of accounts when signed by one or more of the above designated officers, or their appointees; and that the Bank may rely upon the authority conferred by this entire resolution until the receipt by the Bank of a certified copy of a resolution of the Board of Directors of the Corporation revoking or modifying the same.

The President (or other named officer) recommended that_____, Certified Public Accountants, be retained as the Corporation's accountants. Upon motion duly made, seconded, and unanimously adopted, the President (or other named officer) was authorized to retain said accounting firm to serve during the pleasure of the Board of Directors. The President (or other named officer) stated that _____ had recommended that the Corporation adopt the calendar year as its fiscal year. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the fiscal year of the Corporation shall be from January 1 to December 31 in each year.

The Treasurer reported that the fees and expenses involved in the incorporation and organization of the Corporation other than for the services of _____, amounted to $_____. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the Treasurer be and is authorized and directed to pay in cash all fees and expenses incurred in connection with the incorporation and organization of the Corporation, other than for the services of _____, and that such organization expenditures, amounting to $_____, shall be amortized over such period of not less than 60 months as may be selected by the Corporation in accordance with Section 248 of the Internal Revenue Code.

RESOLVED, that the Corporation proceed to carry on business for which it is incorporated and all acts of this meeting be and hereby are ratified.

There being no further business to come before the meeting, upon motion duly made, seconded and unanimously carried, the same was adjourned.

_____
Secretary

Attest:
Board of Directors

_____

_____

_____

EXHIBIT C

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE 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 TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

Coda Octopus Group, Inc.

Warrant Shares: [_____ Initial Exercise Date: April ___, 2007

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, _____ (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the "Initial Exercise Date") and on or prior to the close of business on the five year anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Coda Octopus Group, Inc., a Delaware corporation (the "Company"), up to _____ shares (the "Warrant Shares") of Common Stock. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated March __, 2007, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivering to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company) of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto; and, within 3 Trading Days of the date said Notice of Exercise is delivered to the Company, causing the Company to have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within 3 Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form by 5:00 P.M., Eastern time, on the second Business Day after receipt of such notice. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be **$**_____[1], subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. If at any time after one year from the Closing there is no effective Registration Statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a certificate for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Trading Day immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

[1] $1.30 as to Series A Warrants and $1.70 as to Series B Warrants.

Notwithstanding anything herein to the contrary, on the Termination Date, to the extent permitted under Section 2(d), this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Holder's Restrictions. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, such Holder (together with such Holder's Affiliates, and any other person or entity acting as a group together with such Holder or any of such Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by such Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by such Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to such Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and such Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company's most recent Form 10-QSB or Form 10-KSB, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company's Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written request of a Holder, the Company shall within two Trading Days confirm in writing to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Beneficial Ownership Limitation provisions of this Section 2(d) may be waived by such Holder, at the election of such Holder, upon not less than 61 days' prior notice to the Company to change the Beneficial Ownership Limitation to 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant, and the provisions of this Section 2(d) shall continue to apply. Upon such a change by a Holder of the Beneficial Ownership Limitation from such 4.99% limitation to such 9.99% limitation, the Beneficial Ownership Limitation may not be further waived by such Holder. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

e) Mechanics of Exercise.

i. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission ("DWAC") system if the Company is a participant in such system and there is an effective Registration Statement permitting the resale of the Warrant Shares by the Holder, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise not later than 5:00 P.M., Eastern time on the third Trading Day after receipt by the Company of the Notice of Exercise Form, surrender of this Warrant (if required) and payment of the aggregate Exercise Price as set forth above ("Warrant Share Delivery Date"). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(vi) prior to the issuance of such shares, have been paid. If the Company fails for any reason to deliver to the Holder certificates evidencing the Warrant Shares subject to a Notice of Exercise by the second Trading Day following the Warrant Share Delivery Date, the Company shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each $2,000 of Warrant Shares subject to such exercise (based on the VWAP of the Common Stock on the date of the applicable Notice of Exercise), $10 per Trading Day (increasing to $20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after such second Trading Day following the Warrant Share Delivery Date until such certificates are delivered.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(e)(ii) by the second Trading Day following the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

iv. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to an exercise on or before the second Trading Day following the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (1) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

v. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

vi. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vii. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Equity Sales. If the Company or any Subsidiary thereof, as applicable, at any time while this Warrant is outstanding, shall sell or grant any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalents entitling any Person to acquire shares of Common Stock, at an effective price per share less than the then Exercise Price (such lower price, the "Base Share Price" and such issuances collectively, a "Dilutive Issuance") (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share which is less than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then the Exercise Price shall be reduced and only reduced to equal the Base Share Price and the number of Warrant Shares issuable hereunder shall be increased such that the aggregate Exercise Price payable hereunder, after taking into account the decrease in the Exercise Price, shall be equal to the aggregate Exercise Price prior to such adjustment. Such adjustment shall be made whenever such Common Stock or Common Stock Equivalents are issued. Notwithstanding the foregoing, no adjustments shall be made, paid or issued under this Section 3(b) in respect of an Exempt Issuance. The Company shall notify the Holder in writing, no later than the Trading Day following the issuance of any Common Stock or Common Stock Equivalents subject to this Section 3(b), indicating therein the applicable issuance price, or applicable reset price, exchange price, conversion price and other pricing terms (such notice the "Dilutive Issuance Notice"). For purposes of clarification, whether or not the Company provides a Dilutive Issuance Notice pursuant to this Section 3(b), upon the occurrence of any Dilutive Issuance, after the date of such Dilutive Issuance the Holder is entitled to receive a number of Warrant Shares based upon the Base Share Price regardless of whether the Holder accurately refers to the Base Share Price in the Notice of Exercise.

c) Subsequent Rights Offerings. If the Company, at any time while the Warrant is outstanding, shall issue rights, options or warrants to all holders of Common Stock (but not to the Holder) entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the VWAP at the record date mentioned below, then the Exercise Price shall be multiplied by a fraction, of which the denominator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the numerator shall be the number of shares of the Common Stock outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered (assuming receipt by the Company in full of all consideration payable upon exercise of such rights, options or warrants) would purchase at such VWAP. Such adjustment shall be made whenever such rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights, options or warrants.

d) Pro Rata Distributions. If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (but not to the Holder) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock (which shall be subject to Section 3(b)), then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

e) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (each "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(e) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction. Notwithstanding anything to the contrary, in the event of a Fundamental Transaction that is (1) an all cash transaction, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended, or (3) a Fundamental Transaction involving a person or entity not traded on a national securities exchange, the Nasdaq Global Select Market, the Nasdaq Global Market, or the Nasdaq Capital Market, the Company or any successor entity shall pay at the Holder's option, exercisable at any time concurrently with or within 30 days after the consummation of the Fundamental Transaction, an amount of cash equal to the value of this Warrant as determined in accordance with the Black-Scholes option pricing formula using an expected volatility equal to the 100 day historical price volatility obtained from the HVT function on Bloomberg L.P. as of the trading day immediately prior to the public announcement of the Fundamental Transaction.

f) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

g) [Intentionally Deleted].

h) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement).

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice subject to the limitations set forth in Section 2(d).

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the original Issue Date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, comply with the provisions of Section 5.7 of the Purchase Agreement.

Section 5. Miscellaneous.

a) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof as set forth in Section 2(e)(i).

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

****

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

CODA OCTOPUS GROUP, INC.

By:_____

Name:
Title:

NOTICE OF EXERCISE

TO: CODA OCTOPUS GROUP, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] [if permitted] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

_____

_____

_____

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____
Signature of Authorized Signatory of Investing Entity: _____
Name of Authorized Signatory: _____
Title of Authorized Signatory: _____
Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

Signature Guaranteed: _____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Exhibit 5.1

S ICHENZIA R OSS F RIEDMAN F ERENCE LLP
61 BROADWAY, NEW YORK NY 10006
TEL 212 930 9700 FAX 212 930 9725 WEB WWW. SRFF.COM

May 18, 2007

VIA ELECTRONIC TRANSMISSION

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

RE: Coda Octopus Group, Inc.
Form SB-2 Registration Statement

Ladies and Gentlemen:

We refer to the above-captioned registration statement on Form SB-2 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"), filed by Coda Octopus Group, Inc., a Delaware corporation (the "Company"), with the Securities and Exchange Commission in connection with the registration of up to 32,400,000 shares of the Company's common stock.

We have examined the originals, photocopies, certified copies or other evidence of such records of the Company, certificates of officers of the Company and public officials, and other documents as we have deemed relevant and necessary as a basis for the opinion hereinafter expressed. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as certified copies or photocopies and the authenticity of the originals of such latter documents.

Based on our examination mentioned above, we are of the opinion that the securities being sold pursuant to the Registration Statement are duly authorized are, or will be, when issued in the manner described in the Registration Statement, legally and validly issued, fully paid and non-assessable under the laws of the State of Delaware, including statutory provisions, all applicable provisions under the Delaware state constitution, and reported judicial decisions interpreting those laws.

We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement and to the reference to our firm under "Legal Matters" in the related Prospectus. In giving the foregoing consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act, or the rules and regulations of the Securities and Exchange Commission.

/s/ SICHENZIA ROSS FRIEDMAN FERENCE LLP

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of April 2005, by Coda Octopus Group, Inc., a Delaware corporation (Coda Octopus Group, Inc. and its subsidiaries hereinafter referred to as "Coda Octopus"), with its principal place of business at 245 Park Avenue, New York, New York 10167 and Jason Lee Reid, residing at 1930 Broadway, Apartment 4c, New York, NY 10023 (the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Coda Octopus' business and to provide for Coda Octopus's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

Coda Octopus hereby employs the Executive, and the Executive hereby accepts employment with Coda Octopus, upon the terms and conditions set forth in this Agreement, for a term (the "Employment Period") commencing on the date hereof until terminated pursuant to Section 5.

2. **Title; Duties**

During the Employment Period, the Executive shall be employed in the business of Coda Octopus including its affiliates. The Executive shall serve as President and Chief Executive Officer (see Appendix A for description of duties). In addition to the duties set forth in Appendix A, the Executive shall perform such services consistent with his position and as may be reasonably assigned to him from time to time by Coda Octopus.

3. **Extent of Services**

The Executive will not engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Coda Octopus and to devote his entire business time, attention, skill and effort to the performance of his duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of his duties to Coda Octopus, (i) make and manage personal investments in accordance with the Company's Personal Securities Account Information Sheet in place at the time and (ii) with the prior approval of Coda Octopus, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Coda Octopus, provided, however, that no such approval shall be necessary for the Executive's continued engagement in such charitable, professional and civic activities in which he was engaged and service on any board of directors on which he was serving, on the date of this Agreement, all of which have been previously disclosed to Coda Octopus in writing but, provided further, that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization.

4. **Compensation and Benefits**

(a) Salary. Coda Octopus shall pay the Executive an initial gross base annual salary ("Base Salary") of $250,000 commencing April 1st 2005 through to October 31st 2006. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Coda Octopus's regularly scheduled payroll dates but in no event less frequently than monthly. If the Executive is an Officer of the parent company, Coda Octopus's Compensation Committee (the "Compensation Committee"), or alternatively Coda Octopus, shall review the Executive's Base Salary annually and may increase (but not decrease) the Executive's Base Salary as in effect from time to time as the Compensation Committee shall deem appropriate.

(b) Incentive Compensation. Commencing with calendar year 2006, the Executive shall be entitled to receive an annual cash and/or stock incentive bonus (the "Incentive Bonus") for each Coda Octopus financial year during the Employment Period based on the 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 contract is renewed after each one year term.

(c) Paid Time Off and Other Benefits. The Executive shall be entitled to paid time off for a minimum of 40 business days each calendar year, which shall be accrued ratably during the calendar year, as well as holiday pay in accordance with Coda Octopus's policies in effect from time to time as set forth in its employment handbook as the same may be modified from time to time. In addition, the Executive shall be entitled to local Public Holidays as stipulated in Coda Octopus's employment handbook as the same may be modified from time to time. The Executive shall be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Coda Octopus extends, as a matter of policy, to its executive employees. Coda Octopus shall maintain a disability insurance policy or plan covering the Executive during the Employment Period.

(d) Reimbursement of Business Expenses. Coda Octopus shall reimburse the Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(e) Restricted Stock Grant. Provided that neither the Executive nor Coda Octopus has prior thereto given notice terminating this Agreement, the Executive shall, effective each April 1st be issued $100,000 shares of common stock of Coda Octopus. The value of the common stock shall be $1.00 per share for the first year of employment. Thereafter, the value shall be calculated each quarter commencing April 1st of each year and shall be 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 of the common stock for that quarter will be $1.00 per share. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from such registration.

(f) Car Allowance and Relocation Allowance. Coda Octopus shall reimburse the Executive up to $850 per month in lieu of specific reimbursement expenses for use of a personal vehicle or the provision of a vehicle. In addition, Coda Octopus shall reimburse the Executive for up to $15,000 for relocation to New York, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(g) D&O Insurance Coverage. Subject to the terms of Coda Octopus' directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided to current officers and directors.

5. **Termination**

(a) Termination by Coda Octopus. Coda Octopus may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive; provided that Coda Octopus may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Coda Octopus to the Executive. For purposes of this Agreement, "Cause" for termination shall mean a determination by Coda Octopus in good faith that any of the following events have occurred: (i) the conviction or indictment of the Executive of, or the entry of a plea of guilty or nolo contendere by the Executive to, any felony; (ii) fraud, misappropriation or embezzlement by the Executive; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for Coda Octopus, which failure or gross negligence continues for more than 15 days following the Executive's receipt of written notice of such willful failure or gross negligence from Coda Octopus; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on Coda Octopus's reputation for honesty and fair dealing; (v) the breach by the Executive of his duties under this Agreement or any material term of this Agreement; or (vi) a material violation by the Executive of Coda Octopus's employment policies which continues for more than 15 days following written notice of such violation from Coda Octopus.

(b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Coda Octopus 90 days' written notice. At Coda Octopus' sole discretion, it may substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).

(c) Termination by Executive for Good Reason. The Executive may terminate his employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Coda Octopus. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Coda Octopus, or any other action by Coda Octopus which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) a requirement that the Executive work principally from a location outside the 50 mile radius from Coda Octopus's address first written above, without prior agreement with the Executive; (iii) Coda Octopus's failure to pay the Executive any Base Salary or other compensation to which he becomes entitled, other than an inadvertent failure which is remedied by Coda Octopus within 30 days after receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iv) Coda Octopus's failure to honor the equity award granted pursuant to Section 4(e), if applicable; (v) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (vi) Coda Octopus's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Coda Octopus in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Coda Octopus's efforts, for a period not less than 30 days following such notice, to modify the Executive's employment situation in a manner acceptable to the Executive and Coda Octopus; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to the Executive. If Coda Octopus cures the Good Reason event in a manner acceptable to the Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

(d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon his death or, upon written notice as set forth below, his Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Coda Octopus to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.

(e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Coda Octopus for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

(a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of his Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense he has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Coda Octopus; and (v) except in the case of "Termination by Coda Octopus for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.

(b) Termination by Coda Octopus for Cause or by Executive without Good Reason. If Coda Octopus terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive shall have no rights or claims against Coda Octopus except to receive the payments and benefits described in Section 6(a). Coda Octopus shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Coda Octopus in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(c) Termination by Coda Octopus without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Coda Octopus terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) 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;

(ii) 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

(iii) 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.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(d) Termination Following Change in Control. If, (x) during the Employment Period and within 12 months following a Change in Control, Coda Octopus (or its successor) terminates the Executive's employment without Cause pursuant to Section 5(a) or the Executive terminates his employment for Good Reason pursuant to Section 5(c), or (y) the Executive, by notice given under this clause (y) of this Section 6(d) during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) the items referenced in Section 6(c); and

(ii) Tax Gross-up Payment, as follows:

(A) In the event that any payment made pursuant to Section 6(c) hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under this Agreement or otherwise), (1) 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") ("Parachute Payments") and (2) 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.

(B) For purposes of determining the Gross-Up Amount: (1) Parachute Payments provided under arrangements with the Executive other than under any bonus or other incentive pay or stock plan or program of Coda Octopus (collectively, the "Plan") and this Agreement, if any, shall be taken into account in determining the total amount of Parachute Payments received by the Executive so that the amount of excess Parachute Payments that are attributable to provisions of the Plan and Agreement is maximized; and (2) the Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rate of taxation for the Executive's taxable year in which the Parachute Payments are includable in the Executive's income for purposes of federal, state and local income taxation.

(C) The determination of whether the Excise Tax is payable, the amount thereof, and the amount of any Gross-Up Amount shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by Coda Octopus and approved by the Executive, such approval not to be unreasonably withheld (the "Accounting Firm"). If such determination is not finally accepted by the Internal Revenue Service (or state or local revenue authorities) on audit, then appropriate adjustments shall be computed based upon the amount of Excise Tax and any interest or penalties so determined; provided, however, that the Executive in no event shall owe Coda Octopus any interest on any portion of the Gross-Up Amount that is returned to Coda Octopus. For purposes of making the calculations required by this Section 6(d)(v), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. Coda Octopus and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 6(d)(v). Coda Octopus shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 6(d)(v). Coda Octopus shall pay the Gross-Up Amount to the Executive no later than 60 days following receipt of the Accounting Firm's determination of the Gross-Up Amount.

(iii) None of the benefits described in this Section 6(d) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(iv) For the purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(A) The ownership or acquisition (whether by a merger contemplated by Section 6(d)(vii)(B) below, or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related or unrelated transactions, of Beneficial Ownership of more than 50% of (1) Coda Octopus's outstanding common stock (the "Common Stock") or (2) the combined voting power of Coda Octopus's outstanding securities entitled to vote generally in the election of directors (the "Outstanding Voting Securities");

(B) The merger or consolidation of Coda Octopus with or into any other Person other than a Qualified Affiliate, if, immediately following the effectiveness of such merger or consolidation, Persons who did not Beneficially Own Outstanding Voting Securities immediately before the effectiveness of such merger or consolidation directly or indirectly Beneficially Own more than 50% of the outstanding shares of voting stock of the surviving entity of such merger or consolidation (including for such purpose in both the numerator and denominator, shares of voting stock issuable upon the exercise of then outstanding rights (including conversion rights), options or warrants) ("Resulting Voting Securities"), provided that, for purposes of this Section 6(d)(vii)(B), if a Person who Beneficially Owned Outstanding Voting Securities immediately before the merger or consolidation Beneficially Owns a greater number of the Resulting Voting Securities immediately after the merger or consolidation than the number the Person received solely as a result of the merger or consolidation, such greater number will be treated as held by a Person who did not Beneficially Own Outstanding Voting Securities before the merger or consolidation, and provided further that such merger or consolidation would also constitute a Change in Control if it would satisfy the foregoing test if rights (including conversion rights), options and warrants were not included in the calculation;

(C) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of Coda Octopus;

(D) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an "Incumbent Director" is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation; or

(E) A Change in Control shall also be deemed to occur immediately before the completion of a tender offer for Coda Octopus's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

(F) For purposes of this Agreement, the following definitions shall apply: (a) "Beneficial Ownership," "Beneficially Owned" and "Beneficially Owns" shall have the meanings provided in Exchange Act Rule 13d-3; (b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended; (c) "Person" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Coda Octopus's securities; and (d) "Qualified Affiliate" shall mean (i) any directly or indirectly wholly owned subsidiary of Coda Octopus; (ii) any employee benefit plan (or related trust) sponsored or maintained by Coda Octopus or by any entity controlled by Coda Octopus; or

(v) any Person consisting in whole or in part of the Executive or one or more individuals who are then Coda Octopus's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of Coda Octopus as indicated in its most recent securities filing made before the date of the transaction.

(e) Termination In the Event of Death or Disability.

(i) If the Executive's employment terminates because of his death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Coda Octopus shall become fully vested as of the date of his death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his death occurs. For a period of one (1) year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Coda Octopus's obligations hereunder.

(ii) In the event the Executive's employment terminates due to his Disability, as defined in any long-term disability insurance policy or plan provided to him by Coda Octopus ("Disability Insurance"), he shall be entitled to receive his Base Salary until such date as he shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to him by Coda Octopus and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his employment terminates due to his Disability. For a period of one year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. **Confidentiality**

(a) Definition of Proprietary Information. The Executive acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Executive as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is sued, or (4) that result from any of the Executive's work for Coda Octopus.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Coda Octopus that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Executive or any other person.

(d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Coda Octopus hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Executive will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Coda Octopus during his employment and immediately upon termination of his employment. If requested by Coda Octopus, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Executive's termination of employment. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus whom Coda Octopus had provided services at any time during the Executive's employment with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Executive's termination of employment or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or executive vice president or other senior executive employee of Coda Octopus.

(d) Acknowledgment. The Executive acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his employment, as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Executive further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his employment, or after his employment terminates, would severely injure Coda Octopus. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by him of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Executive to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. **Executive Representation**

The Executive represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

10. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Executive that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix C to this Agreement, Coda Octopus will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Coda Octopus or any subsidiary or affiliate of Coda Octopus. Coda Octopus will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Executive was employed by Coda Octopus; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Coda Octopus. Coda Octopus shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:

Coda Octopus Group, Inc.
245 Park Avenue
New York, New York 10167

(ii) If to the Executive, to:

1930 Broadway
Apartment 4c
New York
NY 10023

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Executive.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: _____
Name: _____
Title: _____

EXECUTIVE

_____
Name: Jason Reid

APPENDIX A

APPENDIX B

ASSIGNMENT

WHEREAS, _____, hereinafter called "Assignor", residing at _____, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship ("Inventions") disclosed in an application for United States and other Letters Patent entitled_____
_____, and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated April 1st, 2005 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

O n _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

If UK or Norway, a different notarial acknowledgment will be required.

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 1st day of April 2005, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Corporation"), and Jason Lee Reid (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.	INDEMNITEE
By: _____	
Name: _____	
Position: _____	Print Name: Jason Reid

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of July 2005, by Coda Octopus Group, Inc., a Delaware corporation (Coda Octopus Group, Inc. and its subsidiaries hereinafter referred to as "Coda Octopus"), with its principal place of business at 245 Park Avenue, New York, New York 10167 and Anthony Davis, residing in 19 Spring Gardens, Edinburgh EH8 8KU ("the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Coda Octopus' business and to provide for Coda Octopus's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

Coda Octopus hereby employs the Executive, and the Executive hereby accepts employment with Coda Octopus, upon the terms and conditions set forth in this Agreement, for a term (the "Employment Period") commencing on the date hereof until terminated pursuant to Section 5.

2. **Title; Duties**

During the Employment Period, the Executive shall be employed in the business of Coda Octopus including its affiliates. The Executive shall serve as Vice President, Commercial Division (see Appendix A for description of duties). In addition to the duties set forth in Appendix A, the Executive shall perform such services consistent with his position and as may be assigned to him from time to time by Coda Octopus.

3. **Extent of Services**

The Executive will not to engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Coda Octopus and to devote his entire business time, attention, skill and effort to the performance of his duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of his duties to Coda Octopus, (i) make and manage personal investments in accordance with the Company's Personal Securities Account Information Sheet in place at the time and (ii) with the prior approval of Coda Octopus, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Coda Octopus, provided, however, that no such approval shall be necessary for the Executive's continued engagement in such charitable, professional and civic activities in which he was engaged and service on any board of directors on which he was serving, on the date of this Agreement, all of which have been previously disclosed to Coda Octopus in writing but, provided further, that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization.

4. **Compensation and Benefits**

(a) Salary. Coda Octopus shall pay the Executive an initial gross base annual salary ("Base Salary") of £80,000 (or $150,000 when relocated to the US) commencing July 1st, 2005. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Coda Octopus's regularly scheduled payroll dates but in no event less frequently than monthly. If the Executive is an Officer of the parent company, Coda Octopus's Compensation Committee (the "Compensation Committee"), or alternatively Coda Octopus, shall review the Executive's Base Salary annually and may increase (but not decrease) the Executive's Base Salary as in effect from time to time as the Compensation Committee shall deem appropriate.

(b) Incentive Compensation. Commencing with calendar year 2006, the Executive shall be entitled to receive an annual cash and/or stock incentive bonus (the "Incentive Bonus") for each Coda Octopus financial year during the Employment Period based on the level of accomplishment of management and performance objectives as established by the Compensation Committee.

(c) Paid Time Off and Other Benefits. The Executive shall be entitled to paid time off for a minimum of 35 business days each calendar year, which shall be accrued ratably during the calendar year, as well as holiday pay in accordance with Coda Octopus's policies in effect from time to time as set forth in its employment handbook as the same may be modified from time to time. The Executive shall be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Coda Octopus extends, as a matter of policy, to its executive employees. The Coda Octopus shall maintain a disability insurance policy or plan covering the Executive during the Employment Period.

(d) Reimbursement of Business Expenses. Coda Octopus shall reimburse the Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(e) Initial Restricted Stock Grant. Provided that neither the Executive nor Coda Octopus has prior thereto given notice terminating this Agreement, the Executive shall, effective 1 November 2005 be issued 50,000 shares of common stock of Coda Octopus to be distributed quarterly, followed by $50,000 shares of common stock of Coda Octopus annually, from November 1st, 2006. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from such registration.

(f) Car or Car Allowance and Relocation Allowance. Whilst based in the UK, the Executive shall be provided with a vehicle. On relocation to the US, Coda Octopus shall reimburse the Executive $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle or the provision of a vehicle. In addition, Coda Octopus shall reimburse the Executive up to an amount to be agreed separately for relocation to the U.S., upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(g) D&O Insurance Coverage. Subject to the terms of Coda Octopus' directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided current officers and directors.

5. **Termination**

(a) Termination by Coda Octopus. Coda Octopus may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive; provided that Coda Octopus may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Coda Octopus to the Executive. For purposes of this Agreement, "Cause" for termination shall mean a determination by Coda Octopus in good faith that any of the following events have occurred: (i) the conviction or indictment of the Executive of, or the entry of a plea of guilty or nolo contendere by the Executive to, any felony; (ii) fraud, misappropriation or embezzlement by the Executive; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for Coda Octopus, which failure or gross negligence continues for more than 15 days following the Executive's receipt of written notice of such willful failure or gross negligence from Coda Octopus; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on Coda Octopus's reputation for honesty and fair dealing; (v) the breach by the Executive of his duties under this Agreement or any material term of this Agreement; or (vi) a material violation by Executive of Coda Octopus's employment policies which continues for more than 15 days following written notice of such violation from Coda Octopus.

(b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Coda Octopus 90 days' written notice. At Coda Octopus' sole discretion, it may substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).

(c) Termination by Executive for Good Reason. The Executive may terminate his employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Coda Octopus. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Coda Octopus, or any other action by Coda Octopus which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) a requirement that the Executive work principally from a location outside the 50 mile radius from Coda Octopus's address first written above, without prior agreement with the Executive; (iii) Coda Octopus's failure to pay the Executive any Base Salary or other compensation to which he becomes entitled, other than an inadvertent failure which is remedied by Coda Octopus within 30 days after receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iv) Coda Octopus's failure to honor the initial equity award granted pursuant to Section 4(e), if applicable; (v) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (vi) Coda Octopus's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Coda Octopus in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Coda Octopus's efforts, for a period not less than 30 days following such notice, to modify Executive's employment situation in a manner acceptable to Executive and Coda Octopus; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to Executive. If Coda Octopus cures the Good Reason event in a manner acceptable to Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

(d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon his death or, upon written notice as set forth below, his Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Coda Octopus to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.

(e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Coda Octopus for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

(a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of his Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense he has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Coda Octopus; and (v) except in the case of "Termination by Coda Octopus for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.

(b) Termination by Coda Octopus for Cause or by Executive without Good Reason. If Coda Octopus terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive shall have no rights or claims against Coda Octopus except to receive the payments and benefits described in Section 6(a). Coda Octopus shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Coda Octopus in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(c) Termination by Coda Octopus without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Coda Octopus terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) 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;

(ii) 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

(iii) 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.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(d) Termination Following Change in Control. If, (x) during the Employment Period and within 12 months following a Change in Control, Coda Octopus (or its successor) terminates the Executive's employment without Cause pursuant to Section 5(a) or the Executive terminates his employment for Good Reason pursuant to Section 5(c), or (y) the Executive, by notice given under this clause (y) of this Section 6(d) during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) the items referenced in Section 6(c); and

(ii) Tax Gross-up Payment, as follows:

(A) In the event that any payment made pursuant to Section 6(c) hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under this Agreement or otherwise), (1) 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") ("Parachute Payments") and (2) 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.

(B) For purposes of determining the Gross-Up Amount: (1) Parachute Payments provided under arrangements with the Executive other than under any bonus or other incentive pay or stock plan or program of Coda Octopus (collectively, the "Plan") and this Agreement, if any, shall be taken into account in determining the total amount of Parachute Payments received by the Executive so that the amount of excess Parachute Payments that are attributable to provisions of the Plan and Agreement is maximized; and (2) the Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rate of taxation for the Executive's taxable year in which the Parachute Payments are includable in the Executive's income for purposes of federal, state and local income taxation.

(C) The determination of whether the Excise Tax is payable, the amount thereof, and the amount of any Gross-Up Amount shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by Coda Octopus and approved by the Executive, such approval not to be unreasonably withheld (the "Accounting Firm"). If such determination is not finally accepted by the Internal Revenue Service (or state or local revenue authorities) on audit, then appropriate adjustments shall be computed based upon the amount of Excise Tax and any interest or penalties so determined; provided, however, that the Executive in no event shall owe Coda Octopus any interest on any portion of the Gross-Up Amount that is returned to Coda Octopus. For purposes of making the calculations required by this Section 6(d)(v), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. Coda Octopus and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 6(d)(v). Coda Octopus shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 6(d)(v). Coda Octopus shall pay the Gross-Up Amount to the Executive no later than 60 days following receipt of the Accounting Firm's determination of the Gross-Up Amount.

(iii) None of the benefits described in this Section 6(d) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(iv) For the purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(A) The ownership or acquisition (whether by a merger contemplated by Section 6(d)(vii)(B) below, or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related or unrelated transactions, of Beneficial Ownership of more than 50% of (1) Coda Octopus's outstanding common stock (the "Common Stock") or (2) the combined voting power of Coda Octopus's outstanding securities entitled to vote generally in the election of directors (the "Outstanding Voting Securities");

(B) The merger or consolidation of Coda Octopus with or into any other Person other than a Qualified Affiliate, if, immediately following the effectiveness of such merger or consolidation, Persons who did not Beneficially Own Outstanding Voting Securities immediately before the effectiveness of such merger or consolidation directly or indirectly Beneficially Own more than 50% of the outstanding shares of voting stock of the surviving entity of such merger or consolidation (including for such purpose in both the numerator and denominator, shares of voting stock issuable upon the exercise of then outstanding rights (including conversion rights), options or warrants) ("Resulting Voting Securities"), provided that, for purposes of this Section 6(d)(vii)(B), if a Person who Beneficially Owned Outstanding Voting Securities immediately before the merger or consolidation Beneficially Owns a greater number of the Resulting Voting Securities immediately after the merger or consolidation than the number the Person received solely as a result of the merger or consolidation, such greater number will be treated as held by a Person who did not Beneficially Own Outstanding Voting Securities before the merger or consolidation, and provided further that such merger or consolidation would also constitute a Change in Control if it would satisfy the foregoing test if rights (including conversion rights), options and warrants were not included in the calculation;

(C) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of Coda Octopus;

(D) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an "Incumbent Director" is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation; or

(E) A Change in Control shall also be deemed to occur immediately before the completion of a tender offer for Coda Octopus's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

(F) For purposes of this Agreement, the following definitions shall apply: (a) "Beneficial Ownership," "Beneficially Owned" and "Beneficially Owns" shall have the meanings provided in Exchange Act Rule 13d-3; (b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended; (c) "Person" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Coda Octopus's securities; and (d) "Qualified Affiliate" shall mean (i) any directly or indirectly wholly owned subsidiary of Coda Octopus; (ii) any employee benefit plan (or related trust) sponsored or maintained by Coda Octopus or by any entity controlled by Coda Octopus; or

(v) any Person consisting in whole or in part of the Executive or one or more individuals who are then Coda Octopus's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of Coda Octopus as indicated in its most recent securities filing made before the date of the transaction.

(e) Termination In the Event of Death or Disability.

(i) If the Executive's employment terminates because of his death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Coda Octopus shall become fully vested as of the date of his death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his death occurs. For a period of one (1) year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Coda Octopus's obligations hereunder.

(ii) In the event the Executive's employment terminates due to his Disability, as defined in any long-term disability insurance policy or plan provided to him by Coda Octopus ("Disability Insurance"), he shall be entitled to receive his Base Salary until such date as he shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to him by Coda Octopus and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his employment terminates due to his Disability. For a period of one year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. **Confidentiality**

(a) Definition of Proprietary Information. The Executive acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Executive as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is sued, or (4) that result from any of the Executive's work for Coda Octopus.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Coda Octopus that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Executive or any other person.

(d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Coda Octopus hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Executive will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Coda Octopus during his employment and immediately upon termination of his employment. If requested by Coda Octopus, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Executive's termination of employment. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus whom Coda Octopus had provided services at any time during the Executive's employment with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Executive's termination of employment or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or executive vice president or other senior executive employee of Coda Octopus.

(d) Acknowledgment. The Executive acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his employment, as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Executive further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his employment, or after his employment terminates, would severely injure Coda Octopus. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by him of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Executive to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. **Executive Representation**

The Executive represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

10. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Executive that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix C to this Agreement, Coda Octopus will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Coda Octopus or any subsidiary or affiliate of Coda Octopus. Coda Octopus will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Executive was employed by Coda Octopus; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Coda Octopus. Coda Octopus shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:

Coda Octopus Group, Inc.
245 Park Avenue
New York, New York 10167

(ii) If to the Executive, to:

19 Spring Gardens
Edinburgh
EH8 8KU

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Executive.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By:
Name: Jason Reid
Title: President and Chief Executive Officer

EXECUTIVE

Name: Anthony Davis

APPENDIX A

TO BE INSERTED SEPARATELY

APPENDIX B

ASSIGNMENT

WHEREAS, _____, hereinafter called "Assignor", residing at _____, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship (“Inventions”) disclosed in an application for United States and other Letters Patent entitled_____, and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated _____, 2005 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

On _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

If UK or Norway, a different notarial acknowledgment will be required.

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 1st day of July 2005, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Corporation"), and Anthony Davis (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By:
Name: Jason Reid
Position: President and CEO

INDEMNITEE

Name: Anthony Davis

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of July 2005, by Coda Octopus Group, Inc., a Delaware corporation (Coda Octopus Group, Inc. and its subsidiaries hereinafter referred to as "Coda Octopus"), with its principal place of business at 245 Park Avenue, New York, New York 10167 and Blair Cunningham, residing in 26B New Century House, Crown Street, Aberdeen AB11 6AY ("the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Coda Octopus' business and to provide for Coda Octopus's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

Coda Octopus hereby employs the Executive, and the Executive hereby accepts employment with Coda Octopus, upon the terms and conditions set forth in this Agreement, for a term (the "Employment Period") commencing on the date hereof until terminated pursuant to Section 5.

2. **Title; Duties**

During the Employment Period, the Executive shall be employed in the business of Coda Octopus including its affiliates. The Executive shall serve as Vice President, Products Division (see Appendix A for description of duties). In addition to the duties set forth in Appendix A, the Executive shall perform such services consistent with his position and as may be assigned to him from time to time by Coda Octopus.

3. **Extent of Services**

The Executive will not to engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Coda Octopus and to devote his entire business time, attention, skill and effort to the performance of his duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of his duties to Coda Octopus, (i) make and manage personal investments in accordance with the Company's Personal Securities Account Information Sheet in place at the time and (ii) with the prior approval of Coda Octopus, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Coda Octopus, provided, however, that no such approval shall be necessary for the Executive's continued engagement in such charitable, professional and civic activities in which he was engaged and service on any board of directors on which he was serving, on the date of this Agreement, all of which have been previously disclosed to Coda Octopus in writing but, provided further, that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization.

4. **Compensation and Benefits**

(a) Salary. Coda Octopus shall pay the Executive an initial gross base annual salary ("Base Salary") of £80,000 (or $150,000 when relocated to the US) commencing July 1st, 2005. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Coda Octopus's regularly scheduled payroll dates but in no event less frequently than monthly. If the Executive is an Officer of the parent company, Coda Octopus's Compensation Committee (the "Compensation Committee"), or alternatively Coda Octopus, shall review the Executive's Base Salary annually and may increase (but not decrease) the Executive's Base Salary as in effect from time to time as the Compensation Committee shall deem appropriate.

(b) Incentive Compensation. Commencing with calendar year 2006, the Executive shall be entitled to receive an annual cash and/or stock incentive bonus (the "Incentive Bonus") for each Coda Octopus financial year during the Employment Period based on the level of accomplishment of management and performance objectives as established by the Compensation Committee.

(c) Paid Time Off and Other Benefits. The Executive shall be entitled to paid time off for a minimum of 40 business days each calendar year, which shall be accrued ratably during the calendar year, as well as holiday pay in accordance with Coda Octopus's policies in effect from time to time as set forth in its employment handbook as the same may be modified from time to time. The Executive shall be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Coda Octopus extends, as a matter of policy, to its executive employees. The Coda Octopus shall maintain a disability insurance policy or plan covering the Executive during the Employment Period.

(d) Reimbursement of Business Expenses. Coda Octopus shall reimburse the Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(e) Initial Restricted Stock Grant. Provided that neither the Executive nor Coda Octopus has prior thereto given notice terminating this Agreement, the Executive shall, effective 1 November 2005 be issued 50,000 shares of common stock of Coda Octopus to be distributed quarterly, followed by $50,000 shares of common stock of Coda Octopus annually, from November 1st, 2006. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from such registration.

(f) Car or Car Allowance and Relocation Allowance. Whilst based in the UK, the Executive shall be provided with a vehicle. On relocation to the US, Coda Octopus shall reimburse the Executive $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle or the provision of a vehicle. In addition, Coda Octopus shall reimburse the Executive up to an amount to be agreed separately for relocation to the US, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(g) D&O Insurance Coverage. Subject to the terms of Coda Octopus' directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided current officers and directors.

5. **Termination**

(a) Termination by Coda Octopus. Coda Octopus may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive; provided that Coda Octopus may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Coda Octopus to the Executive. For purposes of this Agreement, "Cause" for termination shall mean a determination by Coda Octopus in good faith that any of the following events have occurred: (i) the conviction or indictment of the Executive of, or the entry of a plea of guilty or nolo contendere by the Executive to, any felony; (ii) fraud, misappropriation or embezzlement by the Executive; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for Coda Octopus, which failure or gross negligence continues for more than 15 days following the Executive's receipt of written notice of such willful failure or gross negligence from Coda Octopus; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on Coda Octopus's reputation for honesty and fair dealing; (v) the breach by the Executive of his duties under this Agreement or any material term of this Agreement; or (vi) a material violation by Executive of Coda Octopus's employment policies which continues for more than 15 days following written notice of such violation from Coda Octopus.

(b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Coda Octopus 90 days' written notice. At Coda Octopus' sole discretion, it may substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).

(c) Termination by Executive for Good Reason. The Executive may terminate his employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Coda Octopus. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Coda Octopus, or any other action by Coda Octopus which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) a requirement that the Executive work principally from a location outside the 50 mile radius from Coda Octopus's address first written above, without prior agreement with the Executive; (iii) Coda Octopus's failure to pay the Executive any Base Salary or other compensation to which he becomes entitled, other than an inadvertent failure which is remedied by Coda Octopus within 30 days after receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iv) Coda Octopus's failure to honor the initial equity award granted pursuant to Section 4(e), if applicable; (v) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (vi) Coda Octopus's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Coda Octopus in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Coda Octopus's efforts, for a period not less than 30 days following such notice, to modify Executive's employment situation in a manner acceptable to Executive and Coda Octopus; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to Executive. If Coda Octopus cures the Good Reason event in a manner acceptable to Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

(d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon his death or, upon written notice as set forth below, his Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Coda Octopus to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.

(e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Coda Octopus for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

(a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of his Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense he has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Coda Octopus; and (v) except in the case of "Termination by Coda Octopus for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.

(b) Termination by Coda Octopus for Cause or by Executive without Good Reason. If Coda Octopus terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive shall have no rights or claims against Coda Octopus except to receive the payments and benefits described in Section 6(a). Coda Octopus shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Coda Octopus in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(c) Termination by Coda Octopus without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Coda Octopus terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) 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;

(ii) 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

(iii) 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.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(d) Termination Following Change in Control. If, (x) during the Employment Period and within 12 months following a Change in Control, Coda Octopus (or its successor) terminates the Executive's employment without Cause pursuant to Section 5(a) or the Executive terminates his employment for Good Reason pursuant to Section 5(c), or (y) the Executive, by notice given under this clause (y) of this Section 6(d) during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) the items referenced in Section 6(c); and

(ii) Tax Gross-up Payment, as follows:

(A) In the event that any payment made pursuant to Section 6(c) hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under this Agreement or otherwise), (1) 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") ("Parachute Payments") and (2) 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.

(B) For purposes of determining the Gross-Up Amount: (1) Parachute Payments provided under arrangements with the Executive other than under any bonus or other incentive pay or stock plan or program of Coda Octopus (collectively, the "Plan") and this Agreement, if any, shall be taken into account in determining the total amount of Parachute Payments received by the Executive so that the amount of excess Parachute Payments that are attributable to provisions of the Plan and Agreement is maximized; and (2) the Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rate of taxation for the Executive's taxable year in which the Parachute Payments are includable in the Executive's income for purposes of federal, state and local income taxation.

(C) The determination of whether the Excise Tax is payable, the amount thereof, and the amount of any Gross-Up Amount shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by Coda Octopus and approved by the Executive, such approval not to be unreasonably withheld (the "Accounting Firm"). If such determination is not finally accepted by the Internal Revenue Service (or state or local revenue authorities) on audit, then appropriate adjustments shall be computed based upon the amount of Excise Tax and any interest or penalties so determined; provided, however, that the Executive in no event shall owe Coda Octopus any interest on any portion of the Gross-Up Amount that is returned to Coda Octopus. For purposes of making the calculations required by this Section 6(d)(v), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. Coda Octopus and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 6(d)(v). Coda Octopus shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 6(d)(v). Coda Octopus shall pay the Gross-Up Amount to the Executive no later than 60 days following receipt of the Accounting Firm's determination of the Gross-Up Amount.

(iii) None of the benefits described in this Section 6(d) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(iv) For the purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(A) The ownership or acquisition (whether by a merger contemplated by Section 6(d)(vii)(B) below, or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related or unrelated transactions, of Beneficial Ownership of more than 50% of (1) Coda Octopus's outstanding common stock (the "Common Stock") or (2) the combined voting power of Coda Octopus's outstanding securities entitled to vote generally in the election of directors (the "Outstanding Voting Securities");

(B) The merger or consolidation of Coda Octopus with or into any other Person other than a Qualified Affiliate, if, immediately following the effectiveness of such merger or consolidation, Persons who did not Beneficially Own Outstanding Voting Securities immediately before the effectiveness of such merger or consolidation directly or indirectly Beneficially Own more than 50% of the outstanding shares of voting stock of the surviving entity of such merger or consolidation (including for such purpose in both the numerator and denominator, shares of voting stock issuable upon the exercise of then outstanding rights (including conversion rights), options or warrants) ("Resulting Voting Securities"), provided that, for purposes of this Section 6(d)(vii)(B), if a Person who Beneficially Owned Outstanding Voting Securities immediately before the merger or consolidation Beneficially Owns a greater number of the Resulting Voting Securities immediately after the merger or consolidation than the number the Person received solely as a result of the merger or consolidation, such greater number will be treated as held by a Person who did not Beneficially Own Outstanding Voting Securities before the merger or consolidation, and provided further that such merger or consolidation would also constitute a Change in Control if it would satisfy the foregoing test if rights (including conversion rights), options and warrants were not included in the calculation;

(C) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of Coda Octopus;

(D) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an "Incumbent Director" is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation; or

(E) A Change in Control shall also be deemed to occur immediately before the completion of a tender offer for Coda Octopus's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

(F) For purposes of this Agreement, the following definitions shall apply: (a) "Beneficial Ownership," "Beneficially Owned" and "Beneficially Owns" shall have the meanings provided in Exchange Act Rule 13d-3; (b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended; (c) "Person" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Coda Octopus's securities; and (d) "Qualified Affiliate" shall mean (i) any directly or indirectly wholly owned subsidiary of Coda Octopus; (ii) any employee benefit plan (or related trust) sponsored or maintained by Coda Octopus or by any entity controlled by Coda Octopus; or

(v) any Person consisting in whole or in part of the Executive or one or more individuals who are then Coda Octopus's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of Coda Octopus as indicated in its most recent securities filing made before the date of the transaction.

(e) Termination In the Event of Death or Disability.

(i) If the Executive's employment terminates because of his death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Coda Octopus shall become fully vested as of the date of his death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his death occurs. For a period of one (1) year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Coda Octopus's obligations hereunder.

(ii) In the event the Executive's employment terminates due to his Disability, as defined in any long-term disability insurance policy or plan provided to him by Coda Octopus ("Disability Insurance"), he shall be entitled to receive his Base Salary until such date as he shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to him by Coda Octopus and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his employment terminates due to his Disability. For a period of one year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. **Confidentiality**

(a) Definition of Proprietary Information. The Executive acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Executive as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is sued, or (4) that result from any of the Executive's work for Coda Octopus.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Coda Octopus that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Executive or any other person.

(d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Coda Octopus hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Executive will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Coda Octopus during his employment and immediately upon termination of his employment. If requested by Coda Octopus, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Executive's termination of employment. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus whom Coda Octopus had provided services at any time during the Executive's employment with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Executive's termination of employment or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or executive vice president or other senior executive employee of Coda Octopus.

(d) Acknowledgment. The Executive acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his employment, as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Executive further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his employment, or after his employment terminates, would severely injure Coda Octopus. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by him of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Executive to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. **Executive Representation**

The Executive represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

10. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Executive that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix C to this Agreement, Coda Octopus will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Coda Octopus or any subsidiary or affiliate of Coda Octopus. Coda Octopus will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Executive was employed by Coda Octopus; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Coda Octopus. Coda Octopus shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:

Coda Octopus Group, Inc.
245 Park Avenue
New York, New York 10167

(ii) If to the Executive, to:

26B New Century House
Crown Street
Aberdeen
AB11 6AY

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Executive.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: 
Name: Jason Reid
Title: President and Chief Executive Officer

EXECUTIVE

Name: Blair Cunningham

APPENDIX A

TO BE INSERTED SEPARATELY

APPENDIX B

ASSIGNMENT

WHEREAS, _____, hereinafter called "Assignor", residing at _____, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship (“Inventions”) disclosed in an application for United States and other Letters Patent entitled_____, and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated _____, 2005 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

On _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

If UK or Norway, a different notarial acknowledgment will be required.

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 1st day of July 2005, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Corporation"), and Blair Cunningham (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

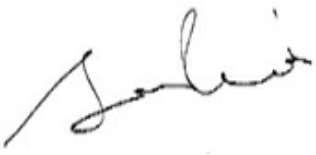
12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.



By:
Name: Jason Reid
Position: President and CEO

INDEMNITEE

Name: Blair Cunningham

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of May 2006, by Coda Octopus Group, Inc., a Delaware corporation (Coda Octopus Group, Inc. and its subsidiaries hereinafter referred to as "Coda Octopus"), with its principal place of business at 245 Park Avenue, New York, New York 10167 and Frank Moore, residing in 5402 Morris Neck Road, Cambridge, MD 21613 ("the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Coda Octopus' business and to provide for Coda Octopus's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

Coda Octopus hereby employs the Executive, and the Executive hereby accepts employment with Coda Octopus, upon the terms and conditions set forth in this Agreement, for a term (the "Employment Period") commencing on the date hereof until terminated pursuant to Section 5.

2. **Title; Duties**

During the Employment Period, the Executive shall be employed in the business of Coda Octopus including its affiliates. The Executive shall serve as Senior Vice President Government Liaison (see Appendix A for description of duties). In addition to the duties set forth in Appendix A, the Executive shall perform such services consistent with his position and as may be assigned to him from time to time by Coda Octopus.

3. **Extent of Services**

The Executive will not engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Coda Octopus and to devote his entire business time, attention, skill and effort to the performance of his duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of his duties to Coda Octopus, (i) make and manage personal investments in accordance with the Company's Personal Securities Account Information Sheet in place at the time and (ii) with the prior approval of Coda Octopus, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Coda Octopus, provided, however, that no such approval shall be necessary for the Executive's continued engagement in such charitable, professional and civic activities in which he was engaged and service on any board of directors on which he was serving, on the date of this Agreement, all of which have been previously disclosed to Coda Octopus in writing but, provided further, that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization. During the Employment Period, the Executive may also continue to serve as Chairman for Ulysses Financial to the extent that this is not a full-time job and does not impair his abilities to properly and effectively perform the services under this Employment Agreement.

4. **Compensation and Benefits**

(a) Salary. Coda Octopus shall pay the Executive an initial gross base annual salary ("Base Salary") of $150,000 commencing May 1st, 2006. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Coda Octopus's regularly scheduled payroll dates but in no event less frequently than monthly. If the Executive is an Officer of the parent company, Coda Octopus's Compensation Committee (the "Compensation Committee"), or alternatively Coda Octopus, shall review the Executive's Base Salary annually and may increase (but not decrease) the Executive's Base Salary as in effect from time to time as the Compensation Committee shall deem appropriate.

(b) Incentive Compensation. Commencing with calendar year 2006, the Executive shall be entitled to receive an annual cash and/or stock incentive bonus (the "Incentive Bonus") for each Coda Octopus financial year during the Employment Period based on the level of accomplishment of management and performance objectives as established by the Compensation Committee.

(c) Paid Time Off and Other Benefits. The Executive shall be entitled to paid time off for a minimum of 30 business days each calendar year, which shall be accrued ratably during the calendar year, as well as holiday pay in accordance with Coda Octopus's policies in effect from time to time as set forth in its employment handbook as the same may be modified from time to time. The Executive shall be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Coda Octopus extends, as a matter of policy, to its executive employees. The Coda Octopus shall maintain a disability insurance policy or plan covering the Executive during the Employment Period.

(d) Reimbursement of Business Expenses. Coda Octopus shall reimburse the Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(e) Restricted Stock Grant ("**RSG**"). Provided that neither the Executive nor Coda Octopus has prior thereto given notice terminating this Agreement, the Executive shall, during the remainder of the current fiscal year of Coda Octopus be issued 25,000 shares of common stock of Coda Octopus ("**Initial Issue**") to be issued and distributed in equal tranche of 12,500 following the end of each of the two remaining quarters of the current fiscal year of Coda Octopus. Each tranche so issued shall be subject to the ratification of Coda Octopus's Board. This shall be followed by 50,000 shares of common stock of Coda Octopus annually, from November 1st, 2006 ("**Annual RSG**"). The Annual RSG shall be issued and distributed equally at the end of each fiscal quarter and such issue shall be subject to the ratification by Coda Octopus's Board. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from such registration.

(f) Car or Car Allowance. Coda Octopus shall reimburse the Executive $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle or the provision of a vehicle.

(g) D&O Insurance Coverage. Subject to the terms of Coda Octopus' directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided current officers and directors.

5. **Termination**

(a) Termination by Coda Octopus. Coda Octopus may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive; provided that Coda Octopus may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Coda Octopus to the Executive. For purposes of this Agreement, "Cause" for termination shall mean a determination by Coda Octopus in good faith that any of the following events have occurred: (i) the conviction or indictment of the Executive of, or the entry of a plea of guilty or nolo contendere by the Executive to, any felony; (ii) fraud, misappropriation or embezzlement by the Executive; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for Coda Octopus, which failure or gross negligence continues for more than 15 days following the Executive's receipt of written notice of such willful failure or gross negligence from Coda Octopus; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on Coda Octopus's reputation for honesty and fair dealing; (v) the breach by the Executive of his duties under this Agreement or any material term of this Agreement; or (vi) a material violation by Executive of Coda Octopus's employment policies which continues for more than 15 days following written notice of such violation from Coda Octopus.

(b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Coda Octopus 90 days' written notice. At Coda Octopus' sole discretion, it may substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).

(c) Termination by Executive for Good Reason. The Executive may terminate his employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Coda Octopus. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Coda Octopus, or any other action by Coda Octopus which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) a requirement that the Executive work principally from a location outside the 50 mile radius from Coda Octopus's address first written above, without prior agreement with the Executive; (iii) Coda Octopus's failure to pay the Executive any Base Salary or other compensation to which he becomes entitled, other than an inadvertent failure which is remedied by Coda Octopus within 30 days after receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iv) Coda Octopus's failure to honor the initial equity award granted pursuant to Section 4(e), if applicable; (v) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (vi) Coda Octopus's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Coda Octopus in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Coda Octopus's efforts, for a period not less than 30 days following such notice, to modify Executive's employment situation in a manner acceptable to Executive and Coda Octopus; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to Executive. If Coda Octopus cures the Good Reason event in a manner acceptable to Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

(d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon his death or, upon written notice as set forth below, his Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Coda Octopus to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.

(e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Coda Octopus for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

(a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of his Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense he has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Coda Octopus; and (v) except in the case of "Termination by Coda Octopus for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.

(b) Termination by Coda Octopus for Cause or by Executive without Good Reason. If Coda Octopus terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive shall have no rights or claims against Coda Octopus except to receive the payments and benefits described in Section 6(a). Coda Octopus shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Coda Octopus in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(c) Termination by Coda Octopus without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Coda Octopus terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) 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;

(ii) 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

(iii) 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.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(d) Termination Following Change in Control. If, (x) during the Employment Period and within 12 months following a Change in Control, Coda Octopus (or its successor) terminates the Executive's employment without Cause pursuant to Section 5(a) or the Executive terminates his employment for Good Reason pursuant to Section 5(c), or (y) the Executive, by notice given under this clause (y) of this Section 6(d) during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) the items referenced in Section 6(c); and

(ii) Tax Gross-up Payment, as follows:

(A) In the event that any payment made pursuant to Section 6(c) hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under this Agreement or otherwise), (1) 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") ("Parachute Payments") and (2) 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.

(B) For purposes of determining the Gross-Up Amount: (1) Parachute Payments provided under arrangements with the Executive other than under any bonus or other incentive pay or stock plan or program of Coda Octopus (collectively, the "Plan") and this Agreement, if any, shall be taken into account in determining the total amount of Parachute Payments received by the Executive so that the amount of excess Parachute Payments that are attributable to provisions of the Plan and Agreement is maximized; and (2) the Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rate of taxation for the Executive's taxable year in which the Parachute Payments are includable in the Executive's income for purposes of federal, state and local income taxation.

(C) The determination of whether the Excise Tax is payable, the amount thereof, and the amount of any Gross-Up Amount shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by Coda Octopus and approved by the Executive, such approval not to be unreasonably withheld (the "Accounting Firm"). If such determination is not finally accepted by the Internal Revenue Service (or state or local revenue authorities) on audit, then appropriate adjustments shall be computed based upon the amount of Excise Tax and any interest or penalties so determined; provided, however, that the Executive in no event shall owe Coda Octopus any interest on any portion of the Gross-Up Amount that is returned to Coda Octopus. For purposes of making the calculations required by this Section 6(d)(v), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. Coda Octopus and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 6(d)(v). Coda Octopus shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 6(d)(v). Coda Octopus shall pay the Gross-Up Amount to the Executive no later than 60 days following receipt of the Accounting Firm's determination of the Gross-Up Amount.

(iii) None of the benefits described in this Section 6(d) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(iv) For the purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(A) The ownership or acquisition (whether by a merger contemplated by Section 6(d)(vii)(B) below, or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related or unrelated transactions, of Beneficial Ownership of more than 50% of (1) Coda Octopus's outstanding common stock (the "Common Stock") or (2) the combined voting power of Coda Octopus's outstanding securities entitled to vote generally in the election of directors (the "Outstanding Voting Securities");

(B) The merger or consolidation of Coda Octopus with or into any other Person other than a Qualified Affiliate, if, immediately following the effectiveness of such merger or consolidation, Persons who did not Beneficially Own Outstanding Voting Securities immediately before the effectiveness of such merger or consolidation directly or indirectly Beneficially Own more than 50% of the outstanding shares of voting stock of the surviving entity of such merger or consolidation (including for such purpose in both the numerator and denominator, shares of voting stock issuable upon the exercise of then outstanding rights (including conversion rights), options or warrants) ("Resulting Voting Securities"), provided that, for purposes of this Section 6(d)(vii)(B), if a Person who Beneficially Owned Outstanding Voting Securities immediately before the merger or consolidation Beneficially Owns a greater number of the Resulting Voting Securities immediately after the merger or consolidation than the number the Person received solely as a result of the merger or consolidation, such greater number will be treated as held by a Person who did not Beneficially Own Outstanding Voting Securities before the merger or consolidation, and provided further that such merger or consolidation would also constitute a Change in Control if it would satisfy the foregoing test if rights (including conversion rights), options and warrants were not included in the calculation;

(C) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of Coda Octopus;

(D) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an "Incumbent Director" is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation; or

(E) A Change in Control shall also be deemed to occur immediately before the completion of a tender offer for Coda Octopus's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

(F) For purposes of this Agreement, the following definitions shall apply: (a) "Beneficial Ownership," "Beneficially Owned" and "Beneficially Owns" shall have the meanings provided in Exchange Act Rule 13d-3; (b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended; (c) "Person" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Coda Octopus's securities; and (d) "Qualified Affiliate" shall mean (i) any directly or indirectly wholly owned subsidiary of Coda Octopus; (ii) any employee benefit plan (or related trust) sponsored or maintained by Coda Octopus or by any entity controlled by Coda Octopus; or

(v) any Person consisting in whole or in part of the Executive or one or more individuals who are then Coda Octopus's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of Coda Octopus as indicated in its most recent securities filing made before the date of the transaction.

(e) Termination In the Event of Death or Disability.

(i) If the Executive's employment terminates because of his death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Coda Octopus shall become fully vested as of the date of his death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his death occurs. For a period of one (1) year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Coda Octopus's obligations hereunder.

(ii) In the event the Executive's employment terminates due to his Disability, as defined in any long-term disability insurance policy or plan provided to him by Coda Octopus ("Disability Insurance"), he shall be entitled to receive his Base Salary until such date as he shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to him by Coda Octopus and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his employment terminates due to his Disability. For a period of one year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. **Confidentiality**

(a) Definition of Proprietary Information. The Executive acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Executive as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is used, or (4) that result from any of the Executive's work for Coda Octopus.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Coda Octopus that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Executive or any other person.

(d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Coda Octopus hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Executive will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Coda Octopus during his employment and immediately upon termination of his employment. If requested by Coda Octopus, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Executive's termination of employment. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus whom Coda Octopus had provided services at any time during the Executive's employment with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Executive's termination of employment or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or executive vice president or other senior executive employee of Coda Octopus.

(d) Acknowledgment. The Executive acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his employment, as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Executive further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his employment, or after his employment terminates, would severely injure Coda Octopus. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by him of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Executive to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. **Executive Representation**

The Executive represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

10. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Executive that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix C to this Agreement, Coda Octopus will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Coda Octopus or any subsidiary or affiliate of Coda Octopus. Coda Octopus will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Executive was employed by Coda Octopus; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Coda Octopus. Coda Octopus shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:

Coda Octopus Group, Inc.
245 Park Avenue
New York, New York 10167

(ii) If to the Executive, to:

5402 Morris Neck Road
Cambridge, MD 21613

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Executive.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By:
Name: Jason Reid
Title: President and Chief Executive Officer

EXECUTIVE

Name: Frank Moore

APPENDIX A

Description of Duties

The main focus of this role is overseeing the Group's Government Liaison, involving:

- Opening and overseeing an office for the company based in Washington, DC, including the employment of any staff at that location
- Coordinating and spearheading all governmental interactions, including national government, state government, local government and federal agencies
- Helping the Group to capitalize on legislation, both upcoming and existing, to increase sales
- Managing our relationship with lobbyists, including PMA
- Project responsibility on an agreed basis
- Operating as part of the Group's management team and as an officer of the Group

APPENDIX B

ASSIGNMENT

WHEREAS, _____, hereinafter called "Assignor", residing at _____, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship (“Inventions”) disclosed in an application for United States and other Letters Patent entitled_____, and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated _____, 2006 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

O n _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 1st day of May 2006, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Corporation"), and (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may

have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.	INDEMNITEE
By: 	
Name: Jason Reid	
Position: President and CEO	Name: Frank Moore

EMPLOYMENT AGREEMENT

THIS **EMPLOYMENT AGREEMENT** (the "Agreement") is made as of this 6 April 2007 day of November 2006, by Miller and Hilton d/b/a Colmek Systems Engineering, a Utah corporation ("**Colmek**"), with its principal place of business at 2001 South 3480 West, Salt Lake City, Utah 84104 and Scott Debo, residing in 1370 East Harvard Avenue, Salt Lake City, Utah, 84105 ("the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Colmek's business and to provide for Colmek's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

Colmek hereby employs the Executive, and the Executive hereby accepts employment with Colmek, upon the terms and conditions set forth in this Agreement, for a term (the "Employment Period") commencing on the date hereof until terminated pursuant to Section 5.

2. **Title and Duties**

During the Employment Period, the Executive shall be employed in the business of Colmek including its affiliates. The Executive shall serve as Chief Executive Officer of Colmek Systems Engineering. Appendix A sets forth the description of duties. In addition to the duties set forth in Appendix A, the Executive shall perform such services consistent with his position and as may be assigned to him from time to time

3. **Extent of Services**

The Executive will not to engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Colmek and to devote his entire business time, attention, skill and effort to the performance of his duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of his duties to Colmek, (i) make and manage personal investments in accordance with the Colmek's Personal Securities Account Information Sheet in place at the time and (ii) with the prior approval of Colmek, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Colmek, provided, however, that no such approval shall be necessary for the Executive's continued engagement in such charitable, professional and civic activities in which he was engaged and service on any board of directors on which he was serving, on the date of this Agreement, all of which have been previously disclosed to Colmek in writing but, provided further, that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization.

4. **Compensation and Benefits**

(a) **Salary**. Colmek shall pay the Executive an initial gross base annual salary ("Base Salary") of $135,000 commencing April 6, 2007. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Colmek's regularly scheduled payroll dates but in no event less frequently than monthly. Colmek shall review the Executive's Base Salary annually. Notwithstanding the foregoing, there is no obligation to increase the Executives Base Salary but such review shall not result in the decrease of the Executive's Base Salary.

(b) **Bonus Compensation**. The Executive shall be entitled to an annual bonus based on Colmek's Revenues and Net Income performance and which shall be payable in cash for achievement between 1 and 100% of the targets and Coda Octopus common stock for achievements over 100% (the "Incentive Bonus"). The Incentive Bonus for fiscal year 2006-7 shall be based on the performance targets of Colmek set forth in Annex 1 hereto. The Revenues and Net Income shall be ascertained from Colmek's audited financial statements. Colmek shall pay the Executive any amounts earned by way of Incentive Bonus 3 months following the end of Colmek's fiscal year.

(c) **Vacation and Other Benefits**. The Executive shall be entitled to four weeks of compensated vacation during each year of employment which shall accrue on a pro-rata basis from the date employment commences under this Agreement. The carry over of unused vacation time from year to year shall be in accordance with Colmek's policy on vacation. The Executive shall also be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Colmek extends, as a matter of policy, to its executive employees including any 401(k) plans.

(d) **Reimbursement of Business Expenses**. Colmek shall reimburse the Executive for all reasonable travel expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Colmek may reasonably request.

(e) **Restricted Common Stock Grant.** The Executive shall as part of his compensation package be entitled to an annual stock grant of common stock having a valuation of $40,000 at the date of issue (Common Stock Grant). The Common Stock Grant shall be issued by Coda Octopus Group Inc and Colmek shall cause Coda Octopus to issue the Common Stock Grant when due. The Common Stock Grant shall be issued within 30 days of the end of each fiscal year of Colmek. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from such registration.

(f) Car or Car Allowance. The Executive shall be provided with a fully expensed and maintained vehicle. Initially this vehicle shall be a Volvo XC90 which the Executive shall keep in a clean and tidy condition at his own expense, and which shall be available for the reasonable business use by other employees of the Company upon request.

(g) D&O Insurance Coverage. Subject to the terms of Coda Octopus Group Inc directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Colmek on a basis no less favorable to him than the coverage provided current officers and directors of other subsidiaries of Coda Octopus Group Inc.

5. **Termination**

(a) Termination by Colmek. Colmek may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive; provided that Colmek may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Colmek to the Executive. For purposes of this Agreement, "Cause" for termination shall mean a determination by Colmek in good faith that any of the following events have occurred: (i) the conviction or indictment of the Executive of, or the entry of a plea of guilty or nolo contendere by the Executive to, any felony; (ii) fraud, misappropriation or embezzlement by the Executive; (iii) the Executive's willful failure or gross negligence in the performance of his assigned duties for Colmek, which failure or gross negligence continues for more than 15 days following the Executive's receipt of written notice of such willful failure or gross negligence from Colmek; (iv) any act or omission of the Executive that has a demonstrated and material adverse impact on Colmek's reputation for honesty and fair dealing; (v) the breach by the Executive of his duties under this Agreement or any material term of this Agreement; or (vi) a material violation by Executive of Colmek's employment policies which continues for more than 15 days following written notice of such violation from Colmek.

(b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Colmek 90 days' written notice. At Colmek's sole discretion, it may substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).

(c) Termination by Executive for Good Reason. The Executive may terminate his employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Colmek. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Colmek, or any other action by Colmek which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) Colmek's failure to pay the Executive any Base Salary or other compensation to which he becomes entitled, other than an inadvertent failure which is remedied by Colmek within 30 days after receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iii) Colmek and Coda Octopus failure to honor the initial equity award granted pursuant to Section 4(e), if applicable; (iv) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (v) Colmek's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Colmek in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Colmek's efforts, for a period not less than 30 days following such notice, to modify Executive's employment situation in a manner acceptable to Executive and Colmek; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to Executive. If Colmek cures the Good Reason event in a manner acceptable to Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

(d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon his death or, upon written notice as set forth below, his Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Colmek to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.

(e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Colmek for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

(a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of his Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense he has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Colmek; and (v) except in the case of "Termination by Colmek for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.

(b) Termination by Colmek for Cause or by Executive without Good Reason. If Colmek terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive shall have no rights or claims against Colmek except to receive the payments and benefits described in Section 6(a). Colmek shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Colmek in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(c) Termination by Colmek without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Colmek terminates the Executive's employment without Cause, or the Executive terminates his employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) a lump sum payment equal to one times the sum of the Executive's then current Base Salary and 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;

(ii) continued payment by Colmek 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 Colmek 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, Colmek 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

(iii) 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 Colmek. 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.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Colmek in the reasonable exercise of its discretion, releasing Colmek, its affiliates including Colmek, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(d) Termination Following Change in Control. If, during the Employment Period and within 12 months following a Change in Control, Colmek (or its successor) terminates the Executive's employment without Cause pursuant to Section 5(a) or the Executive terminates his employment for Good Reason pursuant to Section 5(c), or (y) the Executive, by notice given under this clause (y) of this Section 6(d) during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:

(i) the items referenced in Section 6(c); and

(ii) Tax Gross-up Payment, as follows:

(A) In the event that any payment made pursuant to Section 6(c) hereof or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under this Agreement or otherwise), (1) 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") ("Parachute Payments") and (2) are subject to the excise tax imposed by Section 4999 (as it may be amended or replaced) of the Code ("the Excise Tax"), then Colmek 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.

(B) For purposes of determining the Gross-Up Amount: (1) Parachute Payments provided under arrangements with the Executive other than under any bonus or other incentive pay or stock plan or program of Colmek (collectively, the "Plan") and this Agreement, if any, shall be taken into account in determining the total amount of Parachute Payments received by the Executive so that the amount of excess Parachute Payments that are attributable to provisions of the Plan and Agreement is maximized; and (2) the Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rate of taxation for the Executive's taxable year in which the Parachute Payments are includable in the Executive's income for purposes of federal, state and local income taxation.

(C) The determination of whether the Excise Tax is payable, the amount thereof, and the amount of any Gross-Up Amount shall be made in writing in good faith by a nationally recognized independent certified public accounting firm selected by Colmek and approved by the Executive, such approval not to be unreasonably withheld (the "Accounting Firm"). If such determination is not finally accepted by the Internal Revenue Service (or state or local revenue authorities) on audit, then appropriate adjustments shall be computed based upon the amount of Excise Tax and any interest or penalties so determined; provided, however, that the Executive in no event shall owe Colmek any interest on any portion of the Gross-Up Amount that is returned to Colmek. For purposes of making the calculations required by this Section 6(d)(v), to the extent not otherwise specified herein, reasonable assumptions and approximations may be made with respect to applicable taxes and reasonable, good faith interpretations of the Code may be relied upon. Colmek and the Executive shall furnish such information and documents as may be reasonably requested in connection with the performance of the calculations under this Section 6(d)(v). Colmek shall bear all costs incurred in connection with the performance of the calculations contemplated by this Section 6(d)(v). Colmek shall pay the Gross-Up Amount to the Executive no later than 60 days following receipt of the Accounting Firm's determination of the Gross-Up Amount.

(iii) None of the benefits described in this Section 6(d) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Colmek in the reasonable exercise of its discretion, releasing Colmek, its affiliates including Colmek, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

(iv) For the purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(A) The ownership or acquisition (whether by a merger contemplated by Section 6(d)(vii)(B) below, or otherwise) by any Person (other than a Qualified Affiliate), in a single transaction or a series of related or unrelated transactions, of Beneficial Ownership of more than 50% of (1) Colmek's outstanding common stock (the "Common Stock") or (2) the combined voting power of Colmek's outstanding securities entitled to vote generally in the election of directors (the "Outstanding Voting Securities");

(B) The merger or consolidation of Colmek with or into any other Person other than a Qualified Affiliate, if, immediately following the effectiveness of such merger or consolidation, Persons who did not Beneficially Own Outstanding Voting Securities immediately before the effectiveness of such merger or consolidation directly or indirectly Beneficially Own more than 50% of the outstanding shares of voting stock of the surviving entity of such merger or consolidation (including for such purpose in both the numerator and denominator, shares of voting stock issuable upon the exercise of then outstanding rights (including conversion rights), options or warrants) ("Resulting Voting Securities"), provided that, for purposes of this Section 6(d)(vii)(B), if a Person who Beneficially Owned Outstanding Voting Securities immediately before the merger or consolidation Beneficially Owns a greater number of the Resulting Voting Securities immediately after the merger or consolidation than the number the Person received solely as a result of the merger or consolidation, such greater number will be treated as held by a Person who did not Beneficially Own Outstanding Voting Securities before the merger or consolidation, and provided further that such merger or consolidation would also constitute a Change in Control if it would satisfy the foregoing test if rights (including conversion rights), options and warrants were not included in the calculation;

(C) Any one or a series of related sales or conveyances to any Person or Persons (including a liquidation or dissolution) other than any one or more Qualified Affiliates of all or substantially all of the assets of Colmek;

(D) Incumbent Directors cease, for any reason, to be a majority of the members of the Board of Directors, where an "Incumbent Director" is (1) an individual who is a member of the Board of Directors on the effective date of this Agreement or (2) any new director whose appointment by the Board of Directors or whose nomination for election by the stockholders was approved by a majority of the persons who were already Incumbent Directors at the time of such appointment, election or approval, other than any individual who assumes office initially as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors or as a result of an agreement to avoid or settle such a contest or solicitation; or

(E) A Change in Control shall also be deemed to occur immediately before the completion of a tender offer for Colmek's securities representing more than 50% of the Outstanding Voting Securities, other than a tender offer by a Qualified Affiliate.

(F) For purposes of this Agreement, the following definitions shall apply: (a) "Beneficial Ownership," "Beneficially Owned" and "Beneficially Owns" shall have the meanings provided in Exchange Act Rule 13d-3; (b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended; (c) "Person" shall mean any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), including any natural person, corporation, trust, association, company, partnership, joint venture, limited liability company, legal entity of any kind, government, or political subdivision, agency or instrumentality of a government, as well as two or more Persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of Colmek's securities; and (d) "Qualified Affiliate" shall mean (i) any directly or indirectly wholly owned subsidiary of Colmek; (ii) any employee benefit plan (or related trust) sponsored or maintained by Colmek or by any entity controlled by Colmek; or

(v) any Person consisting in whole or in part of the Executive or one or more individuals who are then Colmek's Chief Executive Officer or any other named executive officer (as defined in Item 402 of Regulation S-K under the Securities Act of 1933) of Colmek as indicated in its most recent securities filing made before the date of the transaction.

(e) Termination In the Event of Death or Disability.

(i) If the Executive's employment terminates because of his death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Colmek shall become fully vested as of the date of his death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his death occurs. For a period of one (1) year following the Date of Termination, Colmek shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Colmek's obligations hereunder.

(ii) In the event the Executive's employment terminates due to his Disability, as defined in any long-term disability insurance policy or plan provided to him by Colmek ("Disability Insurance"), he shall be entitled to receive his Base Salary until such date as he shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to him by Colmek and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which he otherwise would have been entitled for the fiscal year in which his employment terminates due to his Disability. For a period of one year following the Date of Termination, Colmek shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. **Confidentiality**

(a) Definition of Proprietary Information. The Executive acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Colmek's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Colmek and not generally known, relating to research, development, manufacture, marketing and sale of Colmek products, as well as formulas, computer code, processes and other information received by Colmek from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Colmek and the Executive as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Colmek time, or (2) that relate directly to Colmek' business or actual or anticipated research, or (3) for which Colmek' Proprietary Information or other Colmek property is sued, or (4) that result from any of the Executive's work for Colmek.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Colmek, whether or not during normal work time or at Colmek' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Colmek in all countries, and shall be promptly disclosed to and are hereby assigned to Colmek without charge to Colmek. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Colmek that directly relate to Colmek business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Colmek.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Colmek, and to do such other acts as may be necessary in Colmek' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Colmek to such patents, copyrights and Inventions in all countries including, if required by Colmek but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Colmek at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Colmek equipment, supplies, facility or Proprietary Information and (i) which does not relate to Colmek business, or to Colmek' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Colmek.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Executive or any other person.

(d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Colmek hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Colmek (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Colmek's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Colmek is the property of Colmek. The Executive will deliver to Colmek all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Colmek during his employment and immediately upon termination of his employment. If requested by Colmek, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in the Business of the Colmek as is defined in the Stock Purchase Agreement of even date. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Colmek whom Colmek had provided services at any time during the Executive's employment with Colmek in any line of business that Colmek conducts as of the date of the Executive's termination of employment or that Colmek is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Colmek.

(c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Colmek and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Colmek a vice president, senior vice president or executive vice president or other senior executive employee of Colmek.

(d) Acknowledgment. The Executive acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Colmek as the result of his employment, as well as access to the relationships between Colmek and Colmek and their clients and employees. The Executive further acknowledges that the business of Colmek is very competitive and that competition by him in that business during his employment, or after his employment terminates, would severely injure Colmek. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Colmek's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by him of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Colmek shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Colmek under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Executive to account for and pay over to Colmek and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Colmek and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. **Executive Representation**

The Executive represents and warrants to Colmek that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

10. **Enforcement and Indemnification**

(a) Colmek, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Colmek shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Colmek and the Executive that such determination not bar or in any way affect Colmek's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix C to this Agreement, Colmek will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Colmek or any subsidiary or affiliate of Colmek. Colmek will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Colmek in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Colmek which relate to events or occurrences that transpired while Executive was employed by Colmek; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Colmek at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Colmek in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Colmek. Colmek shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Colmek, to:

Colmek
2001 South 3480 West,
Salt Lake City,
Utah 84104

(ii) If to the Executive, to:

Scott R Debo
1578 East 900 South
Salt Lake City,
Utah,
84105

or to such other address or addresses as either party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Colmek and the Executive.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Colmek may be merged or which may succeed to its assets or business or any entity to which Colmek may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Colmek or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Colmek or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

Miller and Hilton d/b/a Colmek Systems Engineering

By:
Name: Jason Reid

EXECUTIVE

Name: Scott DeBo

APPENDIX A

Colmek Systems Engineering

Chief Executive Officer

Based in Salt Lake City, Utah
Reports to the Board of the Company.

Role Description

This person is responsible day to day for the overall smooth running of the Company, He takes an overall responsibility for achievement of the Company’s Business Plan.

Key Responsibilities:

- Understand and perform the legal duties associated with being a director of a Company.
- Work in concert with other Coda management for the greater good of Colmek Group Inc.
- Formulate and agree with the Board the Company's business strategy.
- Produce and agree with the Board the Business Plan.
- In concert with the Board, plan and direct the Company's resources to achieve the Business Plan.
- Manage and control the Company's expenditure within agreed levels.
- Establish and maintain appropriate operational processes and procedures and ensure that all relevant staff are aware of these.

- Manage and maintain the Company's security status.
- Ensure the Company's adherence to health and safety policies & employment legislation.
- Work in synergy with other Coda management to maximise the Company's opportunities world-wide.
- Oversee Human Resource activities

APPENDIX B

ASSIGNMENT

W H E R E A S , _____, hereinafter called "Assignor", residing at _____, has certain new a n d useful formulas, processes, discoveries, improvements, ideas and works of authorship (“Inventions”) disclosed in an application for United States and other Letters Patent entitled_____, and executed by _____ on date herewith;

AND WHEREAS Colmek Group, Inc., located at 164 West 25th Street, 6F, 6th Floor, New York, NY 10001. and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated _____, 2006 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

On _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 6 day of April 2007, by and between Miller & Hilton d/b/a Colmek Systems Engineering., a Utah corporation (the “Corporation”), and Scot DeBo (the “Indemnitee”), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors’ and Officers’ liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee’s service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term “Proceeding” shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term “Expenses” shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys’ fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms “Director” and “Officer” shall include Indemnitee’s service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

COLMEK Systems Engineering.	INDEMNITEE
By:	
Name: Jason Reid	Scott DeBo

DIRECTOR'S AGREEMENT

THIS AGREEMENT (the "Agreement") is made as of this 26th day of January 2005, by Coda Octopus Group, Inc., a Delaware corporation ("Coda Octopus"), with its principal place of business at 245 Park Avenue, 39th Floor, New York, New York 10167 and Paul Nussbaum (the "Director") (collectively the "Parties").

WHEREAS, the Director was appointed to serve on the Board of Directors of Coda Octopus for a term until the next meeting of stockholders and, if replaced, until his replacement is elected and qualifies and the new Director has accepted such appointment; and

WHEREAS, the Parties desire to enter into the Agreement to reflect the Director's duties and responsibilities; and

WHEREAS, the Parties wish to set forth the terms and conditions of service as a director;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Roles and Responsibilities of the Board of Directors**

The Board of Directors represents and is accountable to the shareholders of the Company. The Board's responsibilities are active and not passive and include the responsibility to regularly evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities further include overseeing the structure and composition of the Company's top management and monitoring legal compliance and the management of risks related to the Company's operations. In doing so the Board may set out annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval.

The Board has the responsibility for appointing and discharging the Chief Executive Officer and the President and the other members of management. Subject to the requirements of Delaware law, the Compensation Committee of the Board will confirm the compensation and the employment conditions of management employees.

The basic responsibility of the members of the Board is to act in good faith and with due care so as to exercise their business judgment on an informed basis in what they reasonably and honestly believe to be the best interests of the Company and its shareholders. In discharging that obligation, the directors must inform themselves of all relevant information reasonably available to them.

The incidence of corporate fraud and the increased emphasis on uncovering fraud and exposure has resulted in almost daily revelations. The annual cost of fraud is significant enough to cause concerned investors to insist on better procedures for fraud prevention and detection.

There are generally three conditions present when fraud occurs: incentive (pressure), opportunity, and rationalization (attitude). The policies, procedures, and tone set by the Company's Board have a direct impact on the prevalence of these conditions and therefore on the occurrence of fraud.

The most pervasive area of board influence is developing a culture of compliance. Arguably more far-reaching than a good system of internal controls, a tone of sound ethics and corporate responsibility set at the top and pushed down throughout the organization, is paramount in addressing the fraud condition of rationalization (attitude). Well-designed systems are key to addressing the condition of opportunity.

The most challenging area is pressure or incentive. This condition is fostered internally in companies as managerial performance and compensation are often linked to company performance, creating incentive. While performance incentives are an effective form of remuneration, controls surrounding the determination of management compensation must be well designed.

Fraud prevention and detection is another key area of corporate governance. Even in the absence of regulation, investors see the benefit of good governance practices to minimize financial losses and lessen the risk of damage to corporate reputations - thereby contributing to maintaining the value of shares in the marketplace.

Investor relations: adoption of good governance practices will enable the Company to conduct its business locally and internationally with improved investor/shareholder support. Pre-compliance without regulation precludes the likelihood of encountering foreign obstacles to corporate endeavors in raising capital, competing for business, or merger and acquisition activities. There is less chance of an objection being raised on technical or compliance grounds, reducing project costs and improving the opportunity of success.

2. **Extent of Services**

The Director will devote as much time and attention to the business activities of Coda Octopus as is needed to lead the Board of Directors in effectuating its roles and responsibilities as set forth in paragraph 1 above, including but not limited to; as a member of the compensation committee, review of employment arrangement with management personnel, contact with management to gain relevant information on an as needed basis, review and analysis of relevant contracts and business decisions including pro forma financial information of product launches and business acquisitions, and review of quarterly and annual financial statements and contact as needed with in-house accountants and auditor.

He may engage in other business activities which do not conflict with the operations of Coda Octopus and may sit on charitable, professional and business Boards provided that in no event shall the Director be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which are involved in sub sea or sonar inspection or visualization.

3. **Compensation and Benefits**

(a) Fees. Coda Octopus shall pay the Director an initial gross base annual fee of $40,000 commencing the first attended meeting of the Board of Directors and payable quarterly in arrears, plus a fee of $2,500 per meeting of the Board of Directors attended by the Director.

(b) Reimbursable Travel. Coda Octopus shall reimburse the Director for personal travel to meetings of the Board of Directors upon presentation by the Director of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(c) Initial Restricted Stock Grant. Provided that neither the Director nor Coda Octopus has prior thereto given notice terminating this Agreement, the Director shall, effective January 26th, 2005 be issued 100,000 shares of common stock of Coda Octopus. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission ("SEC") or an exemption from such registration.

(d) Option Grant. On joining the Board of Directors, the Director shall be issued 200,000 options to purchase shares of Coda Octopus common stock with an exercise price at a level agreed at the start of each year (the exercise price for 2004-05 and 2005-06 is $1, with this price to be adjusted to match any lower warrant or option price included in any financing or offering). Options will expire five years from date of issue. The Shares underlying said options will be registered on a piggy back basis in the first registration statement filed with the SEC under the Securities Act of 1933. The Director shall also receive each year a grant of 75,000 common stock purchase options with an exercise price to be determined at the first meeting of the Board of Directors in each fiscal year, with this grant pro-rated to commence from the first attended meeting of the Board of Directors.

(e) D&O Insurance Coverage. During and for a period of at least three years after the Term, the Director shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided current officers and directors.

4. **Termination**

This Agreement will terminate when the Director no longer serves on the Board of Directors.

5. **Effect of Termination**

Fees and other compensation to the Director will cease upon termination. The Director is entitled to all other compensation received prior to the date of termination. Options to purchase stock will terminate 90 days from the date of termination.

6. **Confidentiality**

(a) Definition of Proprietary Information. The Director acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Director as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Director learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is used, or (4) that result from any of the Director's work for Coda Octopus.

Director's Obligation With Regard to Inventions.

(A) All Inventions that the Director may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during service as a director with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Director within one year after termination that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Director will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries, including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix A to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Director's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Director for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Director or any other person.

(d) Obligations. Both during and after he serves as a Director, the Director will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Director's duties to Coda Octopus hereunder). In addition, the Director shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or its affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Director acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Director will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by the Board of Directors during his service and immediately upon termination of his service as a director. If requested by Coda Octopus, the Director will enter into an Assignment of Intellectual Property.

7. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the period in which the Director serves as such and for a period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Director's service if the Director'service is terminated following a Change in Control, the Director will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Director's termination.. Notwithstanding the foregoing, the Director shall not be deemed to have violated this section solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Director will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus to whom Coda Octopus had provided services at any time during the Director's service with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Director's termination of service or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Director will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or director vice president or other senior director employee of Coda Octopus.

(d) Acknowledgment. The Director acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his service as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Director further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his service, or after his service terminates, would severely injure Coda Octopus. The Director understands that the restrictions contained in this Section 7 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Director acknowledges that any breach of Restrictive Covenants would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Director breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Director of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Director to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Director shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

8. **Director Representation**

The Director represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

9. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Director that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 7(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix B to this Agreement, Coda Octopus will indemnify the Director, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Director, including the cost of legal counsel selected and retained by the Director in connection with any action, suit or proceeding to which the Director may be made a party by reason of the Director acting as such. Coda Octopus will pay to the Director in advance of the final disposition of any proceeding all such amounts incurred or suffered.

10. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Director's service, Director shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Director served; provided, however, that such cooperation shall not materially and adversely affect Director or expose Director to an increased probability of civil or criminal litigation. Director's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Director's service, Director also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Director served. Coda Octopus shall also provide Director with compensation on an hourly basis for requested litigation and regulatory cooperation that occurs after his termination, and reimburse Director for all costs and expenses incurred in connection with his performance under this section including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:
Coda Octopus Group, Inc.
245 Park Avenue, 39th Floor
New York, New York 10167

(ii) If to the Director, to:
11 Kirby Street
P. O. Box 1254
Washington, CT 06793

or to such other address or addresses as Party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Director.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Director are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Director in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Director on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: _____
Name: Jason Reid
Title: President

DIRECTOR

_____
Name: Paul Nussbaum

APPENDIX A

ASSIGNMENT

WHEREAS, Paul Nussbaum, hereinafter called "Assignor", residing at 11 Kirby Road, Washington, CT 06793, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship (“Inventions”) disclosed in an application for United States and other Letters Patent entitled _____ and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Director’s Contract with Assignee dated January 26th, 2005 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

O n _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

APPENDIX B

INDEMNITY AGREEMENT

This Agreement is made as of the 26th day of January 2005, by and between Coda Octopus Group, Inc., a Delaware corporation (the "Corporation"), and Paul Nussbaum (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.	INDEMNITEE
By: _____	
Name: _____	_____
Position: _____	Print Name: Paul Nussbaum

DIRECTOR'S AGREEMENT

THIS AGREEMENT (the "Agreement") is made as of this 26th day of January 2005, by Coda Octopus Group, Inc., a Delaware corporation ("Coda Octopus"), with its principal place of business at 245 Park Avenue, 39th Floor, New York, New York 10167 and Rodney Peacock (the "Director") (collectively the "Parties").

WHEREAS, the Director was appointed to serve on the Board of Directors of Coda Octopus for a term until the next meeting of stockholders and, if replaced, until his replacement is elected and qualifies and the new Director has accepted such appointment; and

WHEREAS, the Parties desire to enter into the Agreement to reflect the Director's duties and responsibilities; and

WHEREAS, the Parties wish to set forth the terms and conditions of service as a director;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Roles and Responsibilities of the Board of Directors**

The Board of Directors represents and is accountable to the shareholders of the Company. The Board's responsibilities are active and not passive and include the responsibility to regularly evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities further include overseeing the structure and composition of the Company's top management and monitoring legal compliance and the management of risks related to the Company's operations. In doing so the Board may set out annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval.

The Board has the responsibility for appointing and discharging the Chief Executive Officer and the President and the other members of management. Subject to the requirements of Delaware law, the Compensation Committee of the Board will confirm the compensation and the employment conditions of management employees.

The basic responsibility of the members of the Board is to act in good faith and with due care so as to exercise their business judgment on an informed basis in what they reasonably and honestly believe to be the best interests of the Company and its shareholders. In discharging that obligation, the directors must inform themselves of all relevant information reasonably available to them.

The incidence of corporate fraud and the increased emphasis on uncovering fraud and exposure has resulted in almost daily revelations. The annual cost of fraud is significant enough to cause concerned investors to insist on better procedures for fraud prevention and detection.

There are generally three conditions present when fraud occurs: incentive (pressure), opportunity, and rationalization (attitude). The policies, procedures, and tone set by the Company's Board have a direct impact on the prevalence of these conditions and therefore on the occurrence of fraud.

The most pervasive area of board influence is developing a culture of compliance. Arguably more far-reaching than a good system of internal controls, a tone of sound ethics and corporate responsibility set at the top and pushed down throughout the organization, is paramount in addressing the fraud condition of rationalization (attitude). Well-designed systems are key to addressing the condition of opportunity.

The most challenging area is pressure or incentive. This condition is fostered internally in companies as managerial performance and compensation are often linked to company performance, creating incentive. While performance incentives are an effective form of remuneration, controls surrounding the determination of management compensation must be well designed.

Fraud prevention and detection is another key area of corporate governance. Even in the absence of regulation, investors see the benefit of good governance practices to minimize financial losses and lessen the risk of damage to corporate reputations - thereby contributing to maintaining the value of shares in the marketplace.

Investor relations: adoption of good governance practices will enable the Company to conduct its business locally and internationally with improved investor/shareholder support. Pre-compliance without regulation precludes the likelihood of encountering foreign obstacles to corporate endeavors in raising capital, competing for business, or merger and acquisition activities. There is less chance of an objection being raised on technical or compliance grounds, reducing project costs and improving the opportunity of success.

2. **Extent of Services**

The Director will devote as much time and attention to the business activities of Coda Octopus as is needed to carry out his duties in effectuating the roles and responsibilities of the Board of Directors as set forth in paragraph 1 above, including but not limited to; as a member of the compensation committee, review of employment arrangement with management personnel, contact with management to gain relevant information on an as needed basis, review and analysis of relevant contracts and business decisions including pro forma financial information of product launches and business acquisitions, and review of quarterly and annual financial statements and contact as needed with in-house accountants and auditor.

He may engage in other business activities which do not conflict with the operations of Coda Octopus and may sit on charitable, professional and business Boards provided that in no event shall the Director be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which are involved in sub sea or sonar inspection or visualization.

3. **Compensation and Benefits**

(a) Fees. Coda Octopus shall pay the Director an initial gross base annual fee of $20,000 commencing the first attended meeting of the Board of Directors and payable quarterly in arrears, plus a fee of $2,500 per meeting of the Board of Directors attended by the Director.

(b) Reimbursable Travel. Coda Octopus shall reimburse the Director for personal travel to meetings of the Board of Directors upon presentation by the Director of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

(c) Initial Restricted Stock Grant. Provided that neither the Director nor Coda Octopus has prior thereto given notice terminating this Agreement, the Director shall, effective January 26th, 2005 be issued 150,000 shares of common stock of Coda Octopus. Certificates representing said shares will bear a restrictive legend stating that sale or other transfer of the shares be made only pursuant to an effective registration statement filed with the Securities and Exchange Commission ("SEC") or an exemption from such registration.

(d) Option Grant. On joining the Board of Directors, the Director shall be issued 200,000 options to purchase shares of Coda Octopus common stock with an exercise price at a level agreed at the start of each year (the exercise price for 2004-05 and 2005-06 is $1, with this price to be adjusted to match any lower warrant or option price included in any financing or offering). Options will expire five years from date of issue. The Shares underlying said options will be registered on a piggy back basis in the first registration statement filed with the SEC under the Securities Act of 1933. The Director shall also receive each year a grant of 50,000 common stock purchase options with an exercise price to be determined at the first meeting of the Board of Directors in each fiscal year, with this grant pro-rated to commence from the first attended meeting of the Board of Directors.

(e) D&O Insurance Coverage. During and for a period of at least three years after the Term, the Director shall be entitled to director and officer insurance coverage for his acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to him than the coverage provided current officers and directors.

4. **Termination**

This Agreement will terminate when the Director no longer serves on the Board of Directors.

5. **Effect of Termination**

Fees and other compensation to the Director will cease upon termination. The Director is entitled to all other compensation received prior to the date of termination. Options to purchase stock will terminate 90 days from the date of termination.

6. **Confidentiality**

(a) Definition of Proprietary Information. The Director acknowledges that he may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Director as proprietary and confidential (the "Proprietary Information").

(b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Director learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is used, or (4) that result from any of the Director's work for Coda Octopus.

Director's Obligation With Regard to Inventions.

(A) All Inventions that the Director may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during service as a director with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Director within one year after termination that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Director will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries, including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix A to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Director's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Director for Coda Octopus.

(c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain not as a result of a breach of any duty by the Director or any other person.

(d) Obligations. Both during and after he serves as a Director, the Director will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to him before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Director's duties to Coda Octopus hereunder). In addition, the Director shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or its affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for his own benefit or for the benefit of any third party.

(e) Return of Proprietary Information. The Director acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Director will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by the Board of Directors during his service and immediately upon termination of his service as a director. If requested by Coda Octopus, the Director will enter into an Assignment of Intellectual Property.

7. **Noncompetition and Nonsolicitation**

(a) Restriction on Competition. Throughout the period in which the Director serves as such and for a period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the Restricted Period shall only extend for six months following the expiration or termination of the Director's service if the Director'service is terminated following a Change in Control, the Director will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Director's termination.. Notwithstanding the foregoing, the Director shall not be deemed to have violated this section solely by reason of his passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

(b) Non-Solicitation of Clients. During the Restricted Period, the Director will not solicit, directly or indirectly, on his own behalf or on behalf of any other person(s), any client of Coda Octopus to whom Coda Octopus had provided services at any time during the Director's service with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Director's termination of service or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus.

(c) Non-Solicitation of Employees. During the Restricted Period, the Director will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or director vice president or other senior director employee of Coda Octopus.

(d) Acknowledgment. The Director acknowledges that he will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of his service as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Director further acknowledges that the business of Coda Octopus is very competitive and that competition by him in that business during his service, or after his service terminates, would severely injure Coda Octopus. The Director understands that the restrictions contained in this Section 7 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit his ability to earn a livelihood.

(e) Rights and Remedies upon Breach. The Director acknowledges that any breach of Restrictive Covenants would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Director breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):

(i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Director of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

(ii) The right and remedy to require the Director to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by him as the result of any transactions constituting a breach of the Restrictive Covenants, and the Director shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.

(f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

8. **Director Representation**

The Director represents and warrants to Coda Octopus that he is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent him from performing his obligations under this Agreement.

9. **Enforcement and Indemnification**

(a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Director that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to relief in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).

(b) In accordance with Appendix B to this Agreement, Coda Octopus will indemnify the Director, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Director, including the cost of legal counsel selected and retained by the Director in connection with any action, suit or proceeding to which the Director may be made a party by reason of the Director acting as such. Coda Octopus will pay to the Director in advance of the final disposition of any proceeding all such amounts incurred or suffered.

10. **Miscellaneous**

(a) Litigation and Regulatory Cooperation. During and after Director's service, Director shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Director served; provided, however, that such cooperation shall not materially and adversely affect Director or expose Director to an increased probability of civil or criminal litigation. Director's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Director's service, Director also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Director served. Coda Octopus shall also provide Director with compensation on an hourly basis for requested litigation and regulatory cooperation that occurs after his termination, and reimburse Director for all costs and expenses incurred in connection with his performance under this section including, but not limited to, reasonable attorneys' fees and costs.

(b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

(i) If to Coda Octopus, to:
Coda Octopus Group, Inc.
245 Park Avenue, 39th Floor
New York, New York 10167

(ii) If to the Director, to:
24 Stonehill Road
Headley Down
Hampshire
U.K.

or to such other address or addresses as Party shall designate to the other in writing from time to time by like notice.

(c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

(d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

(e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Director.

(f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Director are personal and shall not be assigned or delegated by him.

(h) Waiver. No delays or omission by Coda Octopus or the Director in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Director on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(j) Severability. In case any provision of this Agreement shall be held by a court or arbitrator with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: _____
Name: Jason Reid
Title: President

DIRECTOR

_____
Name: Rodney Peacock

APPENDIX A

ASSIGNMENT

WHEREAS, Rodney Peacock, hereinafter called "Assignor", residing at 24 Stonehill Road, Headley Down, Hampshire, U.K., has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship ("Inventions") disclosed in an application for United States and other Letters Patent entitled _____ and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at 245 Park Avenue, New York, New York and or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Director's Contract with Assignee dated January 26th, 2005 and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that he has full right to convey the entire Interest herein assigned, and that he has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that he will communicate to Assignee any facts known to him respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____

COUNTY OF _____

O n _____ before me _____ Notary Public, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the Instrument.

WITNESS my hand and official seal.

_____

Signature of Notary

APPENDIX B

INDEMNITY AGREEMENT

This Agreement is made as of the 26th day of January 2005, by and between Coda Octopus Group, Inc., a Delaware corporation (the "Corporation"), and Rodney Peacock (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions*. As used in this Agreement:

   (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.

   (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.

   (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.

2. *Indemnity of Director or Officer*. Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against him in a Proceeding by reason of the fact that he is or was a Director and/or Officer.

3. *Limitations on Indemnity*. Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,

(a) which payment it is prohibited by applicable law from paying as indemnity;

(b) for which payment is actually made to the Indemnitee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) for which payment the Indemnitee is indemnified by Corporation otherwise than pursuant to this Agreement;

(d) resulting from a claim decided in a Proceeding adversely to the Indemnitee based upon or attributable to the Indemnitee gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) resulting from a claim decided in a Proceeding adversely to the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or

(f) brought about or contributed to by the dishonesty of the Indemnitee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnitee shall be indemnified under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless it shall be decided in a Proceeding that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

4. *Advance Payment of Costs*. Expenses incurred by Indemnitee in defending a claim against him in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnitee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnitee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that he is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.

5. *Enforcement*. If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnitee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnitee shall also be entitled to be paid the Expenses of prosecuting such claim.

6. *Subrogation*. In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.

7. *Notice*. The Indemnitee, as a condition precedent to his right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause*. If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.

9. *Indemnification Hereunder Not Exclusive*. Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

10. *Applicable Law*. This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.

11. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

12. *Successors and Assigns*. This Agreement shall be binding upon the Corporation and its successors and assigns.

13. *Continuation of Indemnification*. The indemnification under this Agreement shall continue as to Indemnitee even though he may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

14. *Coverage of Indemnification*. The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: _____
Name: _____
Position: _____

INDEMNITEE

_____
Print Name: Rodney Peacock

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of March __, 2007, between Coda Octopus Group, Inc., a Delaware corporation (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "Purchaser" and collectively the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, securities of the Company as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

ARTICLE I.
DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings set forth in this Section 1.1:

"Action" shall have the meaning ascribed to such term in Section 3.1(j).

"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 Purchaser, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Purchaser will be deemed to be an Affiliate of such Purchaser.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"Closing" means the closing of the purchase and sale of the Securities pursuant to Section 2.1.

"Closing Date" means the Trading Day when all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount and (ii) the Company's obligations to deliver the Securities have been satisfied or waived.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the common stock of the Company, par value $0.001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed into.

"Common Stock Equivalents" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Company Counsel" means Nixon Peabody LLP, with offices located at 100 Summer Street, Boston, Massachusetts 02110.

"Disclosure Schedules" means the Disclosure Schedules of the Company delivered concurrently herewith.

"Effective Date" means the date that the initial Registration Statement filed by the Company pursuant to the Registration Rights Agreement is first declared effective by the Commission.

"Escrow Agent" shall mean Signature Bank, a New York State chartered bank and having an office at, 261 Madison Avenue, New York, New York 10016.

"Escrow Agreement" shall mean the escrow agreement entered into prior to the date hereof, by and among the Placement Agent, the Company and the Escrow Agent pursuant to which the Purchasers shall deposit Subscription Amounts with the Escrow Agent to be applied to the transactions contemplated hereunder.

"Evaluation Date" shall have the meaning ascribed to such term in Section 3.1(r).

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

"Exempt Issuance" means the issuance of (a) shares of Common Stock or options to employees, officers or directors of the Company pursuant to any stock or option plan duly adopted for such purpose, by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established, (b) securities upon the exercise or exchange of or conversion of any Securities issued hereunder and/or other securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding on the date of this Agreement, provided that such securities have not been amended since the date of this Agreement to increase the number of such securities or to decrease the exercise, exchange or conversion price of such securities, (c) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a Person which is, itself or through its subsidiaries, an operating company and in which the Company receives benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities, (d) up to 250,000 shares (adjusted for reverse and forward stock splits, recapitalizations and the like after the dater hereof) of Common Stock in any 12 month period for such purposes as are approved by a majority of the non-employee members of the Board of Directors of the Company, (e) up to 575,000 shares (adjusted for reverse and forward stock splits, recapitalizations and the like after the dater hereof) of Common Stock in connection with the Colmek acquisition described on Schedule 1.1 attached hereto and (f) for purposes of Sections 4.13 and 4.14 only and with the prior written consent of the Placement Agent, up to an amount of Common Stock and warrants equal to the difference between $15,000,000 and the aggregate Subscription Amounts hereunder, on substantially the same terms and conditions as hereunder, with investors executing definitive agreements for the purchase of such securities and such transactions having closed on or before the earlier of (i) the Filing Date (as defined in the Registration Rights Agreement) or (ii) the date that the initial Registration Statement is actually filed with the Commission.

"FWS" means Feldman Weinstein & Smith LLP with offices located at 420 Lexington Avenue, Suite 2620, New York, New York 10170-0002.

"GAAP" shall have the meaning ascribed to such term in Section 3.1(h).

"Indebtedness" shall have the meaning ascribed to such term in Section 3.1(aa).

"Intellectual Property Rights" shall have the meaning ascribed to such term in Section 3.1(o).

"Legend Removal Date" shall have the meaning ascribed to such term in Section 4.1(c).

"Liens" means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

"Lock-up Agreement" means the Lock-up Agreement, dated as of the date hereof, between the Company and the directors, officers and greater than 5% shareholders of the Company, in the form of Exhibit D attached hereto.

"Material Adverse Effect" shall have the meaning assigned to such term in Section 3.1(b).

"Material Permits" shall have the meaning ascribed to such term in Section 3.1(m).

"Participation Maximum" shall have the meaning ascribed to such term in Section 4.12.

"Per Share Purchase Price" equals $1.00, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement.

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

"Placement Agent" means T.R. Winston & Company, LLC, with an address of 376 Main Street, Bedminster, New Jersey 07921, and a facsimile number of (310) 424-1990.

"Pre-Notice" shall have the meaning ascribed to such term in Section 4.12.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Purchaser Party" shall have the meaning ascribed to such term in Section 4.8.

"Registration Rights Agreement" means the Registration Rights Agreement, dated the date hereof, among the Company and the Purchasers, in the form of Exhibit A attached hereto.

"Registration Statement" means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Purchasers of the Shares and the Warrant Shares.

"Required Approvals" shall have the meaning ascribed to such term in Section 3.1(e).

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities" means the Shares, the Warrants and the Warrant Shares.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Shares" means the shares of Common Stock issued or issuable to each Purchaser pursuant to this Agreement.

"Short Sales" means all "short sales" as defined in Rule 200 of Regulation SHO under the Exchange Act (but shall not be deemed to include the location and/or reservation of borrowable shares of Common Stock).

"Subscription Amount" means, as to each Purchaser, the aggregate amount to be paid for Shares and Warrants purchased hereunder as specified below such Purchaser's name on the signature page of this Agreement and next to the heading "Subscription Amount," in United States dollars and in immediately available funds.

"Subsequent Financing" shall have the meaning ascribed to such term in Section 4.12.

"Subsequent Financing Notice" shall have the meaning ascribed to such term in Section 4.12.

"Subsidiary" means any subsidiary of the Company as set forth on Schedule 3.1(a), and shall, where applicable, include any subsidiary of the Company formed or acquired after the date hereof.

"Trading Day" means a day on which the New York Stock Exchange is open for trading.

"Trading Market" means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the American Stock Exchange, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange.

"Transaction Documents" means this Agreement, the Warrants, the Registration Rights Agreement, the Escrow Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"Transfer Agent" means Olde Monmouth Stock Transfer Agents, with a mailing address of 200 Memorial Parkway, Atlantic Highlands, New Jersey 07716 and a facsimile number of _____, and any successor transfer agent of the Company.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted for trading as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)); (b) If the OTC Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date(or the nearest preceding date) on the OTC Bulletin Board; (c) if the Common Stock is not then quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" as published by Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (c) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Purchasers of a majority in interest of the Shares then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

"Warrants" means, collectively, the Common Stock purchase warrants delivered to the Purchasers at the Closing in accordance with Section 2.2(a) hereof, which Warrants shall be exercisable immediately and have a term of exercise equal to 5 years, in the form of Exhibit C attached hereto.

"Warrant Shares" means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II.
PURCHASE AND SALE

2.1 Closing. On the Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers, severally and not jointly, agree to purchase up to an aggregate of $15,000,000 of Shares and Warrants. Each Purchaser shall deliver to the Escrow Agent, via wire transfer or a certified check, immediately available funds equal to its Subscription Amount and the Company shall deliver to each Purchaser its respective Shares and Warrants as determined pursuant to Section 2.2(a), and the Company and each Purchaser shall deliver the other items set forth in Section 2.2 deliverable at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Closing shall occur at the offices of FWS or such other location as the parties shall mutually agree.

2.2 Deliveries.

(a) On or prior to the Closing Date, the Company shall deliver or cause to be delivered to each Purchaser the following:

(i) this Agreement duly executed by the Company;

(ii) a legal opinion of Company Counsel, substantially in the form of Exhibit B attached hereto;

(iii) a copy of the irrevocable instructions to the Transfer Agent instructing the Transfer Agent to deliver, on an expedited basis, a certificate evidencing a number of Shares equal to such Purchaser's Subscription Amount divided by the Per Share Purchase Price, registered in the name of such Purchaser;

(iv) a Warrant registered in the name of such Purchaser to purchase up to a number of shares of Common Stock equal to 50% of such Purchaser's Shares, with an exercise price equal to $1.30, subject to adjustment therein;

(v) a Warrant registered in the name of such Purchaser to purchase up to a number of shares of Common Stock equal to 50% of such Purchaser's Shares, with an exercise price equal to $1.70, subject to adjustment therein;

(vi) a Lock-up Agreement duly executed by the Company and each director, officer and greater than 5% shareholder of the Company;

(vii) the Escrow Agreement duly executed by the Company and the Escrow Agent; and

(viii) the Registration Rights Agreement duly executed by the Company.

(b) On or prior to the Closing Date, each Purchaser shall deliver or cause to be delivered to the Company (or, if so specified, to the Escrow Agent) the following:

(i) this Agreement duly executed by such Purchaser;

(ii) such Purchaser's Subscription Amount by wire transfer to the account specified in the Escrow Agreement; and

(iii) the Registration Rights Agreement duly executed by such Purchaser.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on the Closing Date of the representations and warranties of the Purchasers contained herein;

(ii) all obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

(iii) the delivery by each Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The respective obligations of the Purchasers hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on the Closing Date of the representations and warranties of the Company contained herein;

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement;

(iv) there shall have been no Material Adverse Effect with respect to the Company since the date hereof;

(v) Vision Opportunity Master Fund, Ltd. ("Vision") shall have agreed to (A) waive all existing registration rights granted to it by the Company, (B) waive any pre-emptive rights granted to it by the Company, (C) waive the right to cashless exercise pursuant to any warrants of the Company then held by Vision, (D) waive the effect of any anti-dilution provisions under any preferred stock of the Company then held by Vision, (E) convert on or prior to the Closing Date at least $2,600,000 stated value of preferred stock of the Company held by Vision, and (F) consent to the redemption, at the Closing, of all preferred stock of the Company held by Vision and not converted pursuant to clause (E) lock-up all shares of Common Stock held by it after the Closing for a period of 12 months.

(vi) from the date hereof to the Closing Date, trading in the Common Stock shall not have been suspended by the Commission or the pink sheets (except for any suspension of trading of limited duration agreed to by the Company, which suspension shall be terminated prior to the Closing), nor shall a banking moratorium have been declared either by the United States or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of each Purchaser, makes it impracticable or inadvisable to purchase the Securities at the Closing.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. Except as set forth in the Disclosure Schedules which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth on Schedule 3.1(a). The Company 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 preemptive and similar rights to subscribe for or purchase securities. If the Company has no subsidiaries, then all other references to the Subsidiaries or any of them in the Transaction Documents shall be disregarded.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (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 the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company 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, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") 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.

(c) Authorization; Enforcement. The Company 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 the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its stockholders in connection therewith other than in connection with the Required Approvals. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, 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.

(d) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company, the issuance and sale of the Securities and the consummation by the Company of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational 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 the Company 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 Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, 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 the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) filings required pursuant to Section 4.4 of this Agreement, (ii) the filing with the Commission of the Registration Statement, and (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "Required Approvals").

(f) Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Warrant Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Company has reserved from its duly authorized capital stock the maximum number of shares of Common Stock issuable pursuant to this Agreement and the Warrants.

(g) Capitalization. The capitalization of the Company is as set forth on Schedule 3.1(g), which Schedule 3.1(g) shall also include the number of shares of Common Stock owned beneficially, and of record, by Affiliates of the Company as of the date hereof. The Company has not issued any capital stock since October 31, 2006, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of shares of Common Stock to employees pursuant to the Company's employee stock purchase plans and pursuant to the conversion or exercise of Common Stock Equivalents outstanding as of October 31, 2006. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder, the Board of Directors of the Company or others is required for the issuance and sale of the Securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) Financial Statements. The financial statements of the Company for the fiscal years ended October 31, 2006 and October 31, 2005 are attached hereto as Annex A. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements of the Company, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company 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 the Company's financial statements pursuant to GAAP, (iii) the Company has not altered its method of accounting, (iv) the Company 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) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, 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 unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company 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 the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect. None of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company or such Subsidiary, and neither the Company nor any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(l) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business and all such laws that affect the environment, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

(m) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. The Company 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 the Company 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 the Company 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 the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(o) Patents and Trademarks. The Company 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 the Company nor any Subsidiary has received a notice (written or otherwise) that any of the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company 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.

(p) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate Subscription Amount. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions With Affiliates and Employees. None of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $120,000 other than for (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(r) [RESERVED].

(s) Certain Fees. Other than to the Placement Agent pursuant to the _____ Agreement, dated as of _____, 2007, between the Company and the Placement Agent, no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Private Placement. Assuming the accuracy of the Purchasers representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby.

(u) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act of 1940, as amended.

(v) Registration Rights. Other than each of the Purchasers, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company.

(w) Application of Takeover Protections. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's certificate of incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(x) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information that it believes constitutes or might constitute material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Purchasers regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The press releases disseminated by the Company during the twelve months preceding the date of this Agreement taken as a whole do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made and when made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

(y) No Integrated Offering. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of the Securities Act which would require the registration of any such securities under the Securities Act.

(z) Solvency. Based on the consolidated financial condition of the Company as of the Closing Date, after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder, (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's assets do not constitute unreasonably small capital to carry on its business as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, and projected capital requirements and capital availability thereof; and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its liabilities when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. Schedule 3.1(aa) sets forth as of the date thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" means (a) any liabilities for borrowed money or amounts owed in excess of $50,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business and (c) the present value of any lease payments in excess of $50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(aa) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(bb) No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

(cc) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(dd) Accountants. The Company's accounting firm is set forth on Schedule 3.1(ee) of the Disclosure Schedule. To the knowledge and belief of the Company, such accounting firm (i) is a registered public accounting firm as required by the Exchange Act and (ii) shall express its opinion with respect to the financial statements to be included in the Company's Annual Report for the year ending October 31, 2007.

(ee) No Disagreements with Accountants and Lawyers. There are no disagreements of any kind presently existing, or reasonably anticipated by the Company to arise, between the Company and the accountants and lawyers formerly or presently employed by the Company which could affect the Company's ability to perform any of its obligations under any of the Transaction Documents, and the Company is current with respect to any fees owed to its accountants and lawyers.

(ff) Acknowledgment Regarding Purchasers' Purchase of Securities. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated thereby is merely incidental to the Purchasers' purchase of the Securities. The Company further represents to each Purchaser that the Company's decision to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

(gg) Acknowledgement Regarding Purchaser's Trading Activity. Anything in this Agreement or elsewhere herein to the contrary notwithstanding (except for Sections 3.2(f) and 4.14 hereof), it is understood and acknowledged by the Company (i) that none of the Purchasers has been asked by the Company to agree, nor has any Purchaser agreed, to desist from purchasing or selling, long and/or short, securities of the Company, or "derivative" securities based on securities issued by the Company or to hold the Securities for any specified term; (ii) that past or future open market or other transactions by any Purchaser, including Short Sales, and specifically including, without limitation, Short Sales or "derivative" transactions, before or after the closing of this or future private placement transactions, may negatively impact the market price of the Company's publicly-traded securities; (iii) that any Purchaser, and counter-parties in "derivative" transactions to which any such Purchaser is a party, directly or indirectly, presently may have a "short" position in the Common Stock, and (iv) that each Purchaser shall not be deemed to have any affiliation with or control over any arm's length counter-party in any "derivative" transaction. The Company further understands and acknowledges that (a) one or more Purchasers may engage in hedging activities at various times during the period that the Securities are outstanding, including, without limitation, during the periods that the value of the Warrant Shares deliverable with respect to Securities are being determined and (b) such hedging activities (if any) could reduce the value of the existing stockholders' equity interests in the Company at and after the time that the hedging activities are being conducted. The Company acknowledges that such aforementioned hedging activities do not constitute a breach of any of the Transaction Documents.

(hh) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities, (ii) sold, bid for, purchased, or, paid any compensation for soliciting purchases of, any of the Securities, or (iii) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Company, other than, in the case of clauses (ii) and (iii), compensation paid to the Company's placement agent in connection with the placement of the Securities.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows:

(a) Organization; Authority. Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate or similar action on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, 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.

(b) Own Account. Such Purchaser understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any 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 such Purchaser's right to sell the Securities pursuant to the Registration Statement or otherwise in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. Such Purchaser is acquiring the Securities hereunder in the ordinary course of its business.

(c) Purchaser Status. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any Warrants, 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. Such Purchaser is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Experience of Such Purchaser. Such Purchaser, 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. Such Purchaser 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.

(e) General Solicitation. Such Purchaser 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.

(f) Short Sales and Confidentiality Prior To The Date Hereof. Other than consummating the transactions contemplated hereunder, such Purchaser has not, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, directly or indirectly executed any purchases or sales, including Short Sales, of the securities of the Company during the period commencing from the time that such Purchaser first received a term sheet (written or oral) from the Company or any other Person representing the Company setting forth the material terms of the transactions contemplated hereunder until the date hereof ("Discussion Time"). Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have n o direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement. Other than to other Persons party to this Agreement, such Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

ARTICLE IV.
OTHER AGREEMENTS OF THE PARTIES

4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1(b), the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Purchaser under this Agreement and the Registration Rights Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1, of a legend on any of the Securities in the following form:

> 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 TO 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.

The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an "accredited investor" as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement and the Registration Rights Agreement and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities, including, if the Securities are subject to registration pursuant to the Registration Rights Agreement, the preparation and filing of any required prospectus supplement under Rule 424(b)(3) under the Securities Act or other applicable provision of the Securities Act to appropriately amend the list of Selling Stockholders thereunder.

(c) Certificates evidencing the Shares and Warrant Shares shall not contain any legend (including the legend set forth in Section 4.1(b)), (i) while a registration statement (including the Registration Statement) covering the resale of such security is effective under the Securities Act, or (ii) following any sale of such Shares or Warrant Shares pursuant to Rule 144, or (iii) if such Shares or Warrant Shares are eligible for sale under Rule 144(k), or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company shall, if required by the Transfer Agent, cause its counsel to authorize the Transfer Agent to effect the removal of the legend hereunder promptly after the Effective Date. If all or any portion of a Warrant is exercised at a time when there is an effective registration statement to cover the resale of the Warrant Shares, such Warrant Shares shall be issued free of all legends. The Company agrees that following the Effective Date or at such time as such legend is no longer required under this Section 4.1(c), it will, no later than 5:00 P.M., Eastern time on the third Trading Day after receipt by the Company or the Transfer Agent from a Purchaser of a certificate representing Shares or Warrant Shares, as the case may be, issued with a restrictive legend (such third Trading Day, the "Legend Removal Date"), deliver or cause to be delivered to such Purchaser a certificate representing such shares that is free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to the Transfer Agent that enlarge the restrictions on transfer set forth in this Section. Certificates for Securities subject to legend removal hereunder shall be transmitted by the Transfer Agent to the Purchaser by crediting the account of the Purchaser's prime broker with the Depository Trust Company System as directed by such Purchaser.

(d) In addition to such Purchaser's other available remedies, the Company shall pay to a Purchaser, in cash, as partial liquidated damages and not as a penalty, for each $2,000 of Shares or Warrant Shares (based on the VWAP of the Common Stock on the date such Securities are submitted to the Transfer Agent) delivered for removal of the restrictive legend and subject to Section 4.1(c), $10 per Trading Day (increasing to $20 per Trading Day five (5) Trading Days after such damages have begun to accrue) for each Trading Day after the second Trading Day following the Legend Removal Date until such certificate is delivered without a legend. Nothing herein shall limit such Purchaser's right to pursue actual damages for the Company's failure to deliver certificates representing any Securities as required by the Transaction Documents, and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief.

(e) Each Purchaser, severally and not jointly with the other Purchasers, agrees that such Purchaser will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom, and that if Securities are sold pursuant to a Registration Statement, they will be sold in compliance with the plan of distribution set forth therein, and acknowledges that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Company's reliance upon this understanding.

4.2 Furnishing of Information. Until the earliest of the time that (i) no Purchaser owns Securities or (ii) the Warrants have expired, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act even if the Company is not then subject to the reporting requirements of the Exchange Act. As long as any Purchaser owns Securities, if the Company is not required to file reports pursuant to the Exchange Act, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) such information as is required for the Purchasers to sell the Securities under Rule 144. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the requirements of the exemption provided by Rule 144.

4.3 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Purchasers.

4.4 Securities Laws Disclosure; Publicity. The Company shall, by 8:30 a.m. (New York City time) on the Trading Day immediately following the date hereof, issue a press release substantially in the form attached hereto as Exhibit E. The Company and each Purchaser shall consult with each other in issuing any other press releases with respect to the transactions contemplated hereby, and neither the Company nor any Purchaser shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Purchaser, or without the prior consent of each Purchaser, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any press release or filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except (i) as required by federal securities law in connection with (A) any registration statement contemplated by the Registration Rights Agreement and (B) the filing of final Transaction Documents (including signature pages thereto) with the Commission and (ii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (ii).

4.5 Shareholder Rights Plan. No claim will be made or enforced by the Company or, with the consent of the Company, any other Person, that any Purchaser is an "Acquiring Person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by the Company, or that any Purchaser could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Purchasers.

4.6 Non-Public Information. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, the Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

4.7 Use of Proceeds. Except as set forth on Schedule 4.7 attached hereto [NTD - THE SCHEDULE SHOULD INCLUDE THE $2 MILLION AFTER $10 MILLION USED TO PAY OFF THE PREFERRED], the Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes and shall not use such proceeds for (i) the satisfaction of any portion of the Company's debt (other than payment of trade payables in the ordinary course of the Company's business and prior practices), (ii) the redemption of any Common Stock or Common Stock Equivalents or (iii) the settlement of any outstanding litigation.

4.8 Indemnification of Purchasers. Subject to the provisions of this Section 4.8, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Purchaser in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser may have with any such stockholder or any violations by the Purchaser of state or federal securities laws or any conduct by such Purchaser which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (i) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents.

4.9 Reservation of Common Stock. As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Company to issue Shares pursuant to this Agreement and Warrant Shares pursuant to any exercise of the Warrants.

4.10 Listing of Common Stock. The Company hereby undertakes to use all commercially reasonable efforts to cause the Common Stock to be quoted on the OTC Bulletin Board within five (5) months of the date hereof and to be quoted or listed on a Trading Market within seven (7) months of the date hereof. Following the date that the Common Stock is listed or quoted on a Trading Market, the Company hereby agrees to use best efforts to maintain the listing of the Common Stock on a Trading Market, and to list all of the Shares and Warrant Shares on such Trading Market. The Company further agrees, if the Company applies to have the Common Stock traded on any other Trading Market, it will include in such application all of the Shares and Warrant Shares, and will take such other action as is necessary to cause all of the Shares and Warrant Shares to be listed on such other Trading Market as promptly as possible. Following such date, the Company will take all action reasonably necessary to continue the listing and trading of its Common Stock on a Trading Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Trading Market.

4.11 Equal Treatment of Purchasers. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration is also offered to all of the parties to the Transaction Documents. For clarification purposes, this provision constitutes a separate right granted to each Purchaser by the Company and negotiated separately by each Purchaser, and is intended for the Company to treat the Purchasers as a class and shall not in any way be construed as the Purchasers acting in concert or as a group with respect to the purchase, disposition or voting of Securities or otherwise.

4.12 Participation in Future Financing.

(a) From the date hereof until the date that is the 24 month anniversary of the Effective Date, upon any issuance by the Company or any of its Subsidiaries of Common Stock or Common Stock Equivalents for cash consideration (a "Subsequent Financing"), each Purchaser shall have the right to participate in the Subsequent Financing up to an amount equal to 100% of the Subsequent Financing (the "Participation Maximum") on the same terms, conditions and price provided for in the Subsequent Financing.

(b) At least 5 Trading Days prior to the closing of the Subsequent Financing, the Company shall deliver to each Purchaser a written notice of its intention to effect a Subsequent Financing ("Pre-Notice"), which Pre-Notice shall ask such Purchaser if it wants to review the details of such financing (such additional notice, a "Subsequent Financing Notice"). Upon the request of a Purchaser, and only upon a request by such Purchaser, for a Subsequent Financing Notice, the Company shall promptly, but no later than 1 Trading Day after such request, deliver a Subsequent Financing Notice to such Purchaser. The Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder and the Person or Persons through or with whom such Subsequent Financing is proposed to be effected and shall include a term sheet or similar document relating thereto as an attachment.

(c) Any Purchaser desiring to participate in such Subsequent Financing must provide written notice to the Company by not later than 5:30 p.m. (New York City time) on the 5th Trading Day after all of the Purchasers have received the Pre-Notice that the Purchaser is willing to participate in the Subsequent Financing, the amount of the Purchaser's participation, and that the Purchaser has such funds ready, willing, and available for investment on the terms set forth in the Subsequent Financing Notice. If the Company receives no notice from a Purchaser as of such 5th Trading Day, such Purchaser shall be deemed to have notified the Company that it does not elect to participate.

(d) If by 5:30 p.m. (New York City time) on the 5th Trading Day after all of the Purchasers have received the Pre-Notice, notifications by the Purchasers of their willingness to participate in the Subsequent Financing (or to cause their designees to participate) is, in the aggregate, less than the total amount of the Subsequent Financing, then the Company may effect the remaining portion of such Subsequent Financing on the terms and with the Persons set forth in the Subsequent Financing Notice.

(e) If by 5:30 p.m. (New York City time) on the 5th Trading Day after all of the Purchasers have received the Pre-Notice, the Company receives responses to a Subsequent Financing Notice from Purchasers seeking to purchase more than the aggregate amount of the Participation Maximum, each such Purchaser shall have the right to purchase its Pro Rata Portion (as defined below) of the Participation Maximum. "Pro Rata Portion" means the ratio of (x) the Subscription Amount of Securities purchased on the Closing Date by a Purchaser participating under this Section 4.12 and (y) the sum of the aggregate Subscription Amounts of Securities purchased on the Closing Date by all Purchasers participating under this Section 4.12.

(f) The Company must provide the Purchasers with a second Subsequent Financing Notice, and the Purchasers will again have the right of participation set forth above in this Section 4.12, if the Subsequent Financing subject to the initial Subsequent Financing Notice is not consummated for any reason on the terms set forth in such Subsequent Financing Notice within 60 Trading Days after the date of the initial Subsequent Financing Notice.

(g) Notwithstanding the foregoing, this Section 4.12 shall not apply in respect of (i) an Exempt Issuance or (ii) an underwritten public offering of Common Stock.

4.13 Subsequent Equity Sales.

(a) From the date hereof until 90 days after the Effective Date, neither the Company nor any Subsidiary shall issue shares of Common Stock or Common Stock Equivalents; provided, however, the 90 day period set forth in this Section 4.13 shall be extended for the number of Trading Days during such period in which (i) trading in the Common Stock is suspended by any Trading Market, or (ii) following the Effective Date, the Registration Statement is not effective or the prospectus included in the Registration Statement may not be used by the Purchasers for the resale of the Shares and Warrant Shares.

(b) From the date hereof until such time as no Purchaser holds any of the Securities, the Company shall be prohibited from effecting or entering into an agreement to effect any Subsequent Financing involving a Variable Rate Transaction. "Variable Rate Transaction" means a transaction in which the Company issues or sells (i) any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of Common Stock either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock or (ii) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may sell securities at a future determined price. Any Purchaser shall be entitled to obtain injunctive relief against the Company to preclude any such issuance, which remedy shall be in addition to any right to collect damages.

(c) Notwithstanding the foregoing, this Section 4.13 shall not apply in respect of an Exempt Issuance, except that no Variable Rate Transaction shall be an Exempt Issuance.

4.14 Short Sales and Confidentiality After The Date Hereof. Each Purchaser severally and not jointly with the other Purchasers, covenants that neither it nor any Affiliate acting on its behalf or pursuant to any understanding with it will execute any Short Sales during the period commencing at the Discussion Time and ending at the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in Section 4.4, such Purchaser will maintain the confidentiality of the existence and terms of this transaction and the information included in the Disclosure Schedules. Each Purchaser understands and acknowledges, and agrees, severally and not jointly with any other Purchaser, to act in a manner that will not violate the positions of the Commission as set forth in Item 65, Section A, of the Manual of Publicly Available Telephone Interpretations, dated July 1997, compiled by the Office of Chief Counsel, Division of Corporation Finance. Notwithstanding the foregoing, no Purchaser makes any representation, warranty or covenant hereby that it will not engage in Short Sales in the securities of the Company after the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.4. Notwithstanding the foregoing, in the case of a Purchaser that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Purchaser's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Purchaser's assets, the covenant set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

4.15 Delivery of Securities After Closing. The Company shall deliver, or cause to be delivered, the respective Securities purchased by each Purchaser to such Purchaser within 3 Trading Days of the Closing Date.

4.16 Capital Changes. Until the one year anniversary of the Effective Date, the Company shall not undertake a reverse or forward stock split or reclassification of the Common Stock without the prior written consent of the Purchasers holding a majority in interest of the Shares.

4.17 Per Share Purchase Price Protection. As to each Purchaser, after the date hereof if the Company or any Subsidiary thereof shall issue any Common Stock or Common Stock Equivalents entitling any person or entity to acquire shares of Common Stock at an effective price per share less than the Per Share Purchase Price (the "Discounted Purchase Price", as further defined below), within 3 Trading Days of the date thereof the Company shall issue to such Purchaser that number of additional shares of Common Stock equal to the difference between (a) the quotient obtained by dividing (i) the product of (A) the Shares then held by such Purchaser immediately prior to such issuance multiplied by (B) the Per Share Purchase Price (or if Shares were previously issued pursuant to this Section 4.18, the lowest Discounted Purchase Price used hereunder prior to such issuance) divided by (ii) the Discounted Purchase Price, less (b) the Shares then held by such Purchaser immediately prior to such issuance. The term "Discounted Purchase Price" shall mean the amount actually paid by third parties for a share of Common Stock. The sale of Common Stock Equivalents shall be deemed to have occurred at the time of the issuance of the Common Stock Equivalents and the Discounted Purchase Price covered thereby shall also include the actual exercise or conversion price thereof at the time of the conversion or exercise (in addition to the consideration per share of Common Stock underlying the Common Stock Equivalents received by the Company upon such sale or issuance of the Common Stock Equivalents). If shares are issued for a consideration other than cash, the per share selling price shall be the fair value of such consideration as determined in good faith by the Board of Directors of the Company. The Company may not refuse to issue a Purchaser additional Shares hereunder based on any claim that such Purchaser or any one associated or affiliated with such Purchaser has been engaged in any violation of law, agreement or for any other reason, unless, an injunction from a court, on notice, restraining and or enjoining an issuance hereunder shall have been sought and obtained. Nothing herein shall limit a Purchaser's right to pursue actual damages for the Company's failure to deliver Shares hereunder and such Purchaser shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. On the date of closing of any transaction pursuant to which securities are issued for a Discounted Purchase Price, the Company shall give the Purchasers written notice thereof. Notwithstanding anything to the contrary herein, this Section 4.18 shall not apply to an Exempt Issuance.

4.18 Most Favored Nation Provision. From the date hereof until the date that is the 24 month anniversary of the Closing Date, upon any Subsequent Financing, each Purchaser may elect, in its sole discretion, to exchange all or some of the Shares (but not the Warrants) then held by such Purchaser for additional securities (including any additional securities issued as part of a unit with such security) of the same type issued in such Subsequent Financing (such exchange to be made at the same time as the closing of such Subsequent Financing), on the same terms and conditions as the Subsequent Financing, based on the Per Share Purchase Price multiplied by the number of Shares being exchanged. By way of example, if the Company undertakes a Subsequent Financing of convertible debentures and warrants, each Purchaser shall have the right to participate in such Subsequent Financing and use the exchange of its Shares as consideration, on a $1 for $1 basis, in lieu of cash consideration. The Company shall provide prior written notice of any such Subsequent Financing in the manner set forth in Section 4.12. Notwithstanding the foregoing, this Section 4.19 shall not apply in respect of an Exempt Issuance.

ARTICLE V.
MISCELLANEOUS

5.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Closing has not been consummated on or before April __, 2007; provided, however, that no such termination will affect the right of any party to sue for any breach by the other party (or parties).

5.2 Fees and Expenses. At the Closing, the Company has agreed to reimburse the Placement Agent the non-accountable sum of $20,000 for its legal fees and expenses, $10,000 of which has been paid prior to the Closing Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all Transfer Agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers.

5.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

5.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the 2nd Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

5.5 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers of at least 85% of the Shares still held by the Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

5.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

5.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger). Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

5.8 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.8.

5.9 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action or proceeding to enforce any provisions of the Transaction Documents, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

5.10 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Shares and Warrant Shares.

5.11 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

5.12 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

5.13 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

5.14 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agrees to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

5.15 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

5.16 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents. For reasons of administrative convenience only, Purchasers and their respective counsel have chosen to communicate with the Company through FWS. FWS does not represent any of the Purchasers but only the Placement Agent. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by the Purchasers.

5.17 Liquidated Damages. The Company's obligations to pay any partial liquidated damages or other amounts owing under the Transaction Documents is a continuing obligation of the Company and shall not terminate until all unpaid partial liquidated damages and other amounts have been paid notwithstanding the fact that the instrument or security pursuant to which such partial liquidated damages or other amounts are due and payable shall have been canceled.

5.18 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

5.19 **Waiver of Jury Trial. In any action, suit or proceeding in any jurisdiction brought by any party against any other party, the parties each knowingly and intentionally, to the greatest extent permitted by applicable law, hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury.**

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

CODA OCTOPUS GROUP, INC.

By:_____
Name:
Title:

With a copy to (which shall not constitute notice):

Nixon Peabody LLP
100 Summer Street
Boston, Massachusetts 02110

Address for Notice:

164 West 25th Street, 6th Floor
New York, New York 10001
Facsimile: _____
Attention: _____

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGES TO CDOC SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

Name of Purchaser: _____

Signature of Authorized Signatory of Purchaser: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Email Address of Purchaser:_____

Fax Number of Purchaser: _____

Address for Notice of Purchaser:

Address for Delivery of Securities for Purchaser (if not same as address for notice):

Subscription Amount: $_____

Shares: _____

Warrant Shares: _____

EIN Number: **[PROVIDE THIS UNDER SEPARATE COVER]**

[SIGNATURE PAGES CONTINUE]

ANNEX A

2006 and 2005 Financial Statements of the Company

SALE OF ACCOUNTS AND SECURITY AGREEMENT

Date: August 17, 2005.
Coda Octopus Group, Inc., a Delaware corporation ("Seller"), having offices at 245 Park Avenue, 39th Floor, New York, New York 10167.

Seller and Faunus Group International, Inc., a Delaware corporation ("FGI"), having offices at 80 Pine Street, 32nd Floor, New York, New York 10005, hereby agree to the terms and conditions set forth in this Sale of Accounts and Security Agreement ("Agreement"):

Section 1.1 Definitions. For the purposes of this Agreement and unless defined otherwise herein, all terms used shall have the meanings assigned to them on Schedule "A".

Section 1.2 Other Referential Provisions.

(a) Except as otherwise expressly provided herein, all accounting terms not specifically defined or specified herein shall have the meanings generally attrib-uted to such terms under GAAP including, without limitation, applicable statements and interpretations issued by the Financial Accounting Standards Board and bulletins, opin-ions, interpretations and statements issued by the American Institute of Certified Public Accountants or its committees.

(b) All personal pronouns used in this Agreement, whether used in the mas-cu-line, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provisions of this Agreement.

(d) Titles of Articles and Sections in this Agreement are for convenience only, do not constitute part of this Agreement and neither limit nor amplify the pro-vi-sions of this Agreement, and all references in this Agreement to Articles, Sections, Sub-sections, paragraphs, clauses, sub clauses, Schedules or Exhibits shall refer to the cor-res-ponding Article, Section, Subsection, paragraph, clause or sub clause of, or Schedule or Exhibit attached to, this Agreement, unless specific reference is made to the articles, sec-tions or other subdivisions or divisions of, or to schedules or exhibits to, another docu-ment or instrument.

(e) Each definition of a document in this Agreement shall include such doc-u-ment as amended, modified, supplemented or restated from time to time in accordance with the terms of this Agreement.

(f) Except where specifically restricted, reference to a party to this Agreement includes that party and its successors and assigns.

(g) All capitalized terms in this Agree-ment shall have the meanings given those terms in the UCC.

Section 1.3 Exhibits and Schedules. All Exhibits and Schedules attached here-to are by reference made a part hereof.

Section 2. **Purchase & Sale of Accounts.**

(a) Seller hereby offers to sell, assign, transfer, convey and deliver to FGI, as absolute owner, in accordance with the procedure detailed herein, all of Seller's right, title and interest in and to Seller's Accounts.

(b) All Accounts shall be submitted to FGI on a Schedule of Accounts listing each Account separately. The Schedule of Accounts shall be in the form attached hereto as Schedule "2," or in such other form as required by FGI, and shall be signed by a person acting or purporting to act on behalf of Seller. At the time the Schedule of Accounts is presented, Seller shall also deliver to FGI one copy of a sales contract, purchase order, and invoice for each Account together with evidence of shipment, furnishing and/or delivery of the Goods or rendition of service(s). All invoices shall plainly state on their face the amounts payable hereunder are payable to FGI at the remittance address or by the wire instructions set forth below.

Wire Instructions:
Commerce Bank, N.A.
(Comm BK Marlton)
Cherry Hill, NJ
SWIFT: CBNAUS33
ABA/Routing #: 026013673
Credit to: FGI Finance
Account #: 7918598116

Mailing Address:
80 Pine Street
32nd Floor
New York, NY 10005

(c) Any and all Purchased Accounts shall be purchased on either a Credit Approved or with Full Recourse basis. In the absence of written Credit Approval, the Purchased Accounts shall be purchased at Full Recourse. If Goods are shipped or services are provided based on a verbal approval, it is Seller's responsibility to ensure that such approval is received in writing in a timely manner. Credit Approval(s) may be withdrawn, either orally or in writing, in FGI's discretion at any time if, in FGI's opinion, a Customer's credit standing becomes impaired before actual delivery of Goods or rendering of services. Credit Approval(s) shall be limited to the specific terms and amounts indicated, and, notwithstanding any information subsequently provided to Seller by FGI, such Credit Approval(s) are automatically rescinded and withdrawn if the terms of sale vary from the terms approved by FGI, or if the terms of sale are changed by Seller without FGI's written Credit Approval on the new terms, or if the Purchased Account is not assigned to FGI within ten (10) days from the date of the invoice. Seller further acknowledges that if Seller ships Goods or provides services to a customer who has outstanding Accounts from Seller, and such customer's credit line and/or outstanding Credit Approval(s) have been withdrawn by FGI, and the Accounts created thereby, whether or not they are sold and assigned to FGI, exceed ten percent (10%) of the amount outstanding on FGI's books, that any Credit Approvals applying to those Purchased Accounts outstanding on FGI's books are cancelled and all outstanding Purchased Accounts from that customer are with Full Recourse.

(d) With regard to sales without Credit Approval or in excess of any Credit Approvals to any given Customer, Seller agrees that any payments or credits applying to any Account owing by such Customer will be applied: first, to any Credit-Approved Purchased Accounts outstanding on FGI's books; second, to any Full Recourse Purchased Accounts outstanding on FGI's books; and, third, to any Accounts outstanding on Seller's books. This order of payment applies regardless of the respective dates the sales occurred and regardless of any notations on payment items.

(e) If FGI fails to collect a Purchased Account within ninety (90) days of its maturity for which Credit Approval has been given, FGI shall pay to Seller the Net Invoice Amount of such Purchased Account less fees, within a reasonable time period, subject to the terms and provisions stated herein. Any Purchased Account for freight, samples or miscellaneous sales (including, without limitation, the sale of Goods and/or in quantities not regularly sold by Seller) is always assigned to FGI at Full Recourse, notwithstanding any written Credit Approval from FGI.

(f) FGI shall have no liability of any kind for declining or refusing to give, or for withdrawing, revoking, or modifying, any Credit Approval pursuant to the terms of this Agreement, or for exercising or failing to exercise any rights or remedies FGI may have under this Agreement or otherwise. In the event FGI declines to give Credit Approval on any order received by Seller from a Customer and in advising Seller of such decline FGI furnishes Seller with information as to the credit standing of the Customer, such information shall be deemed to have been requested of FGI by Seller and FGI's advice containing such information is recognized as a privileged communication. Seller agrees that such information shall not be given to Seller's Customer or to Seller's sales representative(s). If necessary, Seller shall merely advise its Customer(s) that credit has been declined on the account and that any questions should be directed to FGI. Each Full Recourse Account(s) assigned to and purchased by FGI is with full recourse to Seller and at Seller's sole credit risk. FGI shall have the right to charge back to Seller's Reserve Account the amount of such Full Recourse Receivables at any time and from time to time either before or after their maturity. Seller agrees to pay FGI upon demand the full amount thereof, together with all expenses incurred by FGI up to the date of such payment, including reasonable attorney's fees in attempting to collect or enforce such payment or payment of such Account(s). FGI's Credit Approval shall only begin after the first fifteen percent (15%) of all Purchased Accounts relating to each Account Debtor. For purposes of determining FGI's Credit Approval hereunder, the Purchased Account(s) balance due FGI from any given customer shall be calculated as the aggregate amount owed by that Customer less any credits to which such Customer may be entitled, and is not to be construed to mean individual invoices owed by that customer.

Section 3. **Purchase Price and Commissions.**

(a) The purchase price that FGI shall pay to Seller for each Purchased Account shall equal the Net Invoice Amount thereof less FGI's service commission, as specified below. No discount, credit, allowance or deduction with respect to any Purchased Account, unless shown on the face of an invoice, shall be granted or approved by Seller to any Customer without FGI's prior written consent.

(b) The purchase price (as computed above), less (i) any Required Reserve Amount or credit balance that FGI, in FGI's sole discretion, determines to hold, (ii) moneys remitted, paid, or otherwise advanced by FGI to or on behalf of Seller (including any amounts which Seller may reasonably be obligated to pay in the future), and (iii) any other charges provided for by this Agreement, shall be payable by Seller to FGI on the Date of Collection.

(c) FGI shall be entitled to withhold a Required Reserve Amount, and may revise the Required Reserve Account or Reserve Percentage at any time and from time to time if FGI deems it necessary to do so in order to protect FGI's interests. In no event shall Seller permit a Reserve Shortfall to occur. FGI may charge against the Required Reserve Account any amount for which Seller may be obligated to FGI at any time, whether under the terms of this Agreement, or otherwise, including but not limited to the repayment of any over advance, any damages suffered by FGI as a result of Seller's breach of any provision of Section 4 hereof (whether intentional or unintentional), any adjustments due and any attorneys' fees, costs and disbursements due. Seller recognizes that the Required Reserve Account represents bookkeeping entries only and not cash funds. It is further agreed that with respect to the balance in the Required Reserve Account, FGI is authorized to withhold, without giving prior notice to Seller, such payments and credits otherwise due to Seller under the terms of this Agreement for reasonably anticipated claims or to adequately satisfy reasonably anticipated obligation(s) Seller may owe FGI. If an Event of Default has occurred and is continuing, or, in the event Seller shall cease selling Accounts to FGI, FGI shall be under no obligation to pay the amount in the Required Reserve Account until all Accounts listed on all Schedules of Accounts have been collected or FGI has determined, in its sole discretion, that it will make no further efforts to collect any Accounts and all sums due FGI hereunder have been paid.

(d) In FGI's sole discretion, in accordance with the terms of this Agreement, FGI may from time to time advance to Seller against the purchase price of Purchased Accounts purchased by FGI hereunder, sums up to eighty percent (80%) of the aggregate purchase price of Purchased Accounts outstanding at the time any such advance is made, less: (1) Any such Purchased Accounts that are in dispute; (2) any such Purchased Accounts that are not credit approved; and (3) any fees, actual or estimated, that are chargeable to the Reserve Account. Any advance shall be payable on demand and shall bear interest at the rate set forth in subsection (e) below from the date such advance is made until the date FGI would otherwise be obligated hereunder to pay the purchase price of the Purchased Account(s) against which such advance was made.

(e) Interest upon the daily net balance of any monies remitted, paid, advanced or otherwise charged to Seller's or for Seller's account before the payment date (including any advance made pursuant to subsection 2(d), and interest applicable to the charges or to the expenses referred to in this Agreement) shall be charged to Seller's Reserve Account as of the last day of each month at a rate greater of eight percent (8%), per annum or three and one half percent (3.5%) above the rate of interest designated by FGI as its "Prime Rate" or "Base Rate', as the case may be (which as of the date hereof is based upon the Wall Street Journal, Money Rates Section which is subject to change) on the net daily balance of all outstanding Purchased Accounts. In the event that the Wall Street Journal ceases to publish a Prime Rate, then the Prime Rate shall be the average of the three largest U.S. money center commercial banks, as determined by FGI. All such interest shall be computed for the actual number of days elapsed on the basis of a year consisting of three hundred sixty (360) days. Any adjustment in FGI's interest rate, whether downward or upward will become effective on the first day of the month following the month in which the prime rate of interest is reduced or increased. If during any month, a net credit balance (i.e., the reserve or credit balance exceeds outstanding Receivables), then you agree to credit our reserve account as of the last day of each month with interest at a rate equal to two percent (2%) below the Prime Rate. All such interest, whether charged or credited to our reserve account, shall be computed for the actual number of days elapsed on the basis of a year consisting of three hundred sixty (360) days. Any adjustment in your interest rate, whether downward or upward, will become effective on the first day of the month following the month in which the prime rate of interest is reduced or increased.

(f) For FGI's services hereunder, Seller shall pay and FGI shall be entitled to receive a service commission equal to one and eighty five hundredths of one percent (1.85%) of the gross invoice amount of each Purchased Account, which commission shall be due and payable to FGI on the date such Purchased Account arises for the initial thirty (30) day term, plus an additional fifteen (15) days. Thereafter, FGI shall be entitled to receive an additional fee of one half of one percent (0.5%) for each ten (10) day period after the initial forty five (45) days. Service commissions shall be chargeable to Seller's Required Reserve Account. The minimum service commission on each invoice or credit memo shall be Five Dollars ($5.00). FGI shall be entitled to receive a surcharge equal to two percent (2%) of the gross invoice amount of all Accounts arising out of sales to any Chapter 11, Debtor-In-Possession. The minimum service commission on each invoice or credit memo shall be Five Dollars ($5.00).

(g) FGI's commission is based upon Seller's maximum selling terms of net thirty (30) days, and Seller will not grant additional dating to any customer without FGI's prior written approval. If and when such extended terms or additional dating are given to Seller's customers, FGI's commission with respect to the Purchased Accounts represented thereby shall be increased by two percent (2%) for each thirty (30) days, or portion thereof, of extended or additional dating.

(h) The minimum aggregate service commissions payable under this Agreement for each contract year hereof shall be thirty five thousand dollars ($35,000). To the extent of any deficiency (after giving effect to commissions payable under the foregoing subsections), the difference between the minimum and the amount already charged shall be chargeable to Seller's Required Reserve Account, or at FGI's option, payable by Seller on FGI's demand.

(i) **IT IS THE INTENTION OF THE PARTIES HERETO THAT AS TO ALL PURCHASED ACCOUNTS, THE TRANSACTIONS CONTEMPLATED HEREBY SHALL CONSTITUTE A TRUE PURCHASE AND SALE OF ACCOUNT(S) UNDER § 9-318 OF THE UCC AND AS SUCH, THE SELLER SHALL HAVE NO LEGAL OR EQUITABLE INTEREST IN THE ACCOUNTS SOLD. NEVERTHELESS, IN THE EVENT ANY PORTION OF THIS TRANSACTION IS CHARACTERIZED AS A LOAN, THE PARTIES HERETO INTEND TO CONTRACT IN STRICT COMPLIANCE WITH APPLICABLE USURY LAW FROM TIME TO TIME IN EFFECT. IN FURTHERANCE THEREOF SUCH PARTIES STIPULATE AND AGREE THAT NONE OF THE TERMS AND PROVISIONS CONTAINED IN THIS AGREEMENT SHALL EVER BE CONSTRUED TO CREATE A CONTRACT TO PAY, FOR THE USE, FORBEARANCE OR DETENTION OF MONEY, INTEREST IN EXCESS OF THE MAXIMUM RATE (AS HEREINAFTER DEFINED) FROM TIME TO TIME IN EFFECT. NEITHER SELLER, ANY PRESENT OR FUTURE GUARANTOR OR ANY OTHER PERSON HEREAFTER BECOMING LIABLE FOR THE PAYMENT OF THE ADVANCES, SHALL EVER BE LIABLE FOR ANY OBLIGATION THAT MAY BE CHARACTERIZED AS UNEARNED INTEREST THEREON OR SHALL EVER BE REQUIRED TO PAY ANY OBLIGATION THAT MAY BE CHARACTERIZED AS INTEREST THEREON IN EXCESS OF THE MAXIMUM AMOUNT THAT MAY BE LAWFULLY CHARGED UNDER APPLICABLE LAW FROM TIME TO TIME IN EFFECT, AND THE PROVISIONS OF THIS SECTION SHALL CONTROL OVER ALL OTHER PROVISIONS OF THIS AGREEMENT WHICH MAY BE IN CONFLICT THEREWITH. IF ANY INDEBTEDNESS OR OBLIGATION OWED BY SELLER HEREUNDER IS DETERMINED TO BE IN EXCESS OF THE LEGAL MAXIMUM, OR FGI SHALL OTHERWISE COLLECT MONEYS WHICH ARE DETERMINED TO CONSTITUTE INTEREST WHICH WOULD OTHERWISE INCREASE THE INTEREST ON ALL OR ANY PART OF SUCH OBLIGATIONS TO AN AMOUNT IN EXCESS OF THAT PERMITTED TO BE CHARGED BY APPLICABLE LAW THEN IN EFFECT, THEN ALL SUCH SUMS DETERMINED TO CONSTITUTE INTEREST IN EXCESS OF SUCH LEGAL LIMIT SHALL, WITHOUT PENALTY, BE PROMPTLY APPLIED TO REDUCE THE THEN OUTSTANDING OBLIGATIONS OR, AT FGI'S OPTION, RETURNED TO SELLER OR THE OTHER PAYOR THEREOF UPON SUCH DETERMINATION. IF AT ANY TIME THE RATE AT WHICH INTEREST IS PAYABLE HEREUNDER EXCEEDS THE MAXIMUM RATE, THE AMOUNT OUTSTANDING HEREUNDER SHALL CEASE BEARING INTEREST UNTIL SUCH TIME AS THE TOTAL AMOUNT OF INTEREST ACCRUED HEREUNDER EQUALS (BUT DOES NOT EXCEED) THE MAXIMUM RATE APPLICABLE HERETO. AS USED IN THIS SECTION, THE TERM "APPLICABLE LAW" MEANS THE LAWS OF THE STATE OF NEW YORK OR, IF DIFFERENT, THE LAWS OF THE STATE OR TERRITORY IN WHICH THE SELLER RESIDES, WHICHEVER LAW ALLOWS THE GREATER RATE OF INTEREST, AS SUCH LAWS NOW EXIST OR MAY BE CHANGED OR AMENDED OR COME INTO EFFECT IN THE FUTURE AND THE TERM "MAXIMUM RATE" MEANS THE MAXIMUM NONUSURIOUS RATE OF INTEREST THAT FGI IS PERMITTED UNDER APPLICABLE LAW TO CONTRACT FOR, TAKE, CHARGE OR RECEIVE WITH RESPECT TO THE ADVANCES.**

(j) **Transfer**. Upon FGI's acceptance of each Purchased Account, FGI shall be the sole owner and holder of such Purchased Account. Seller hereby sells, transfers, conveys and assigns to FGI all of its right, title and interest in and to each Purchased Account effective at the time of acceptance thereof by FGI. Seller agrees to execute and deliver to each Account Debtor obligated under an Account and/or a Purchased Account such written notice of sale of the Purchased Account as FGI may request.

(k) **Accounting Information**. FGI shall provide Seller with information on the Purchased Accounts and a monthly reconciliation of the relationship relating to billing, collection and account maintenance such as aging, posting, error resolution and mailing of statements. All of the foregoing shall be in a format and in such detail, as FGI, in its sole discretion, deems appropriate. FGI's books and records shall be admissible in evidence without objection as prima facie evidence of the status of the Purchased and non-purchased Accounts and Required Reserve Account between FGI and Seller. Each statement, report, or accounting rendered or issued by FGI to Seller shall be deemed conclusively accurate and binding on Seller unless within fifteen (15) days after the date of issuance Seller notifies FGI to the contrary by registered or certified mail, setting forth with specificity the reasons why Seller believes such statement, report, or accounting is inaccurate, as well as what Seller believes to be correct amount(s) therefore. Seller's failure to receive any monthly statement shall not relieve it of the responsibility to request such statement and Seller's failure to do so shall nonetheless bind Seller to whatever FGI's records would have reported.

Section 4. **Seller's Representations and Covenants**. Seller, as well as each of Seller's principals, represent, warrant and covenant to FGI that:

(a) Seller is either a corporation, limited liability company, limited partnership or other form of Registered Organization, is duly organized, validly existing and in good standing under the laws of the state of its incorporation or organization and is qualified and authorized to do business and is in good standing in all states in which such qualification and good standing are necessary or desirable.

(b) The execution, delivery and performance by Seller of this Agreement does not and will not constitute a violation of any applicable law, violation of Seller's articles of incorporation or organization or bylaws or any material breach of any other document, agreement or instrument to which Seller is a party or by which Seller is bound.

(c) The Agreement is a legal, valid and binding obligation of Seller enforceable against it in accordance with its terms.

(d) Immediately prior to the execution and at the time of delivery of each Schedule of Account, Seller is the sole owner and holder of each of the Account described thereon and that upon FGI's acceptance of each Purchased Account; it shall become the sole owner and holder of such Purchased Account(s).

(e) No Purchased Account shall have been previously sold or transferred or be subject to any lien, encumbrance, security interest or other claim of any kind of nature. Seller will not factor, sell, transfer, pledge or give a security interest in any of its Accounts to anyone other than FGI. There are no financing statements now on file in any public office covering any Collateral of Seller of any kind, real or personal, in which Seller is named in or has signed as the debtor, except the financing statement or statements filed or to be filed in respect of this Agreement or those statements now on file that have been disclosed in writing by Seller to FGI as reflected on the attached Schedule 4(e). Seller will not execute any financing statement in favor of any other Person, except FGI, during the Term of this agreement.

(f) The amount of each Purchased Account is due and owing to Seller and represents an accurate statement of a bona fide sale, delivery and acceptance of Goods or performance of service by Seller to or for an Account Debtor. The terms for payment of Purchased Accounts are thirty (30) days from date of invoice and the payment of such Purchased Accounts is not contingent upon the fulfillment by Seller of any further performance of any nature whatsoever. Each Account Debtor's business is solvent to the best of Seller's knowledge.

(g) There are and shall be no set-offs, allowances, discounts, deductions, counterclaims, or disputes with respect to any Purchased Account, either at the time it is accepted by FGI for FGI or prior to the date it is to be paid. Seller shall inform FGI, in writing, immediately upon learning that there exists any Account, which is subject to a Dispute. Seller shall accept no returns and shall grant no allowance or credit to any Account Debtor without notice to and the prior written approval of FGI. Seller shall provide to FGI for each Account Debtor who is indebted on a Purchased Account that has been purchased, a weekly report in a form and substance satisfactory to FGI itemizing all such returns and allowances made during the previous week with respect such Purchased Accounts and at FGI's option a check (or wire transfer) payable to FGI for the amount thereof or in FGI's sole and exclusive discretion, FGI may accept the issuance of a Credit Memo and apply same to Seller's Required Reserve Account.

(h) Seller's address, as set forth in any Application submitted to FGI, is Seller's mailing address, its chief executive office, principal place of business and the office where all of the books and records concerning the Purchased Accounts are maintained which shall not be changed without giving thirty (30) days prior written notice to FGI.

(i) Seller shall maintain its books and records in accordance with GAAP and shall reflect on its books the absolute sale of the Purchased Accounts to FGI. Seller shall furnish FGI, upon request, such information and statements, as FGI shall request from time to time regarding Seller's business affairs, financial condition and results of its operations. Without limiting the generality of the foregoing, Seller shall provide FGI, on or prior to the 30th day of each month, unaudited financial statements with respect to the prior month and, within ninety (90) days after the end of each of Seller's fiscal years, annual financial statements and such certificates relating to the foregoing as FGI may request including, without limitation, a monthly certificate from the president and chief financial officer of Seller stating whether any Events of Default have occurred and stating in detail the nature of the Events of Default. Seller will furnish to FGI upon request a current listing of all open and unpaid accounts payable and Accounts, and such other items of information that FGI may deem necessary or appropriate from time to time. Unless otherwise expressly provided herein or unless FGI otherwise consents, all financial statements and reports furnished to FGI hereunder shall be prepared and all financial computations and determinations pursuant hereto shall be made in accordance with GAAP, consistently applied.

(j) Seller has paid and will pay all taxes and governmental charges imposed with respect to sale of Goods and furnish to FGI upon request satisfactory proof of payment and compliance with all federal, state and local tax requirements.

(k) Seller will promptly notify FGI of (i) the filing of any lawsuit against Seller involving amounts greater than $10,000.00, and (ii) any attachment or any other legal process levied against Seller.

(l) The Application made or delivered by or on behalf of Seller in connection with this Agreement, and the statements made therein are true and correct at the time that this Agreement is executed. There is no fact which Seller has not disclosed to FGI in writing which could materially adversely affect the properties, business or financial condition of Seller, or any of the Purchased Accounts or Collateral, or which is necessary to disclose in order to keep the foregoing representations and warranties from being misleading.

(m) In no event shall the funds paid to Seller hereunder be used directly or indirectly for personal, family, household or agricultural purposes.

(n) Seller does business under no trade or assumed names except as indicated below:

(None)

(o) Any invoice or written communication that is issued by Seller to FGI by facsimile transmission is a duplicate of the original.

(p) Any electronic communication of data, whether by e-mail, tape, disk, or otherwise, Seller remits or causes to be remitted to FGI shall be authentic and genuine.

Section 5. **Notice of Purchase**. Seller shall execute and deliver to FGI and/or file at such times and places as FGI may designate such financing statements, continuations and amendments thereto as are necessary or desirable to give notice of FGI's purchase of the Purchased Accounts under the UCC in effect in any applicable jurisdiction and FGI's security interest in Seller's Collateral as provided in Section 6 below.

Section 6. **Collateral**. In order to secure the payment of all indebtedness and obligations of Seller to FGI, in addition to the sale of Purchased Accounts, Seller hereby grants to FGI a security interest in and lien upon all of Seller's right, title and interest in and to all of Seller's Collateral. Seller agrees to comply with all appropriate laws in order to perfect FGI's security interest in and to the Collateral and to execute such documents as FGI may, from time to time, require and to deliver to FGI a list of all locations of its Inventory, Equipment and Goods. Seller shall provide written notice to FGI of any change in the locations at which it keeps its Inventory, Equipment and Goods at least thirty (30) days prior to any such change. The occurrence of any Event of Default shall entitle FGI to all of the default rights and remedies (without limiting the other rights and remedies exercisable by FGI either prior or subsequent to an Event of Default) as available to a Secured Party under the UCC in effect in any applicable jurisdiction.

Section 7. **Collection**.

(a) Seller shall notify all Account Debtors and take other necessary or appropriate means to insure that all of Seller's Account(s), whether or not purchased by FGI, shall be paid directly to FGI at the remittance address or by the wire instructions set forth below. FGI shall have the right at any time, either before or after the occurrence of an Event of Default and without notice to Seller, to notify any or all Account Debtors of the assignment to FGI and to direct such Account Debtors to make payment of all amounts due or to become due to Seller directly to FGI. As to any Account proceeds that do not represent Purchased Accounts, and so long as Seller is not in default, FGI shall be deemed to have received any such proceeds of Accounts as a pure pass-through for and on account of Seller.

Wire Instructions:
Commerce Bank, N.A.
(Comm BK Marlton)
Cherry Hill, NJ
SWIFT: CBNAUS33
ABA/Routing #: 026013673
Credit to: FGI Finance
Account #: 7918598116

Mailing Address:
80 Pine Street
32nd Floor
New York, NY 10005

(b) FGI, as the sole and absolute owner of the Purchased Accounts, shall have the sole and exclusive power and authority to collect each such Purchased Account, through legal action or otherwise, and FGI may, in its sole discretion, settle, compromise, or assign (in whole or in part) any of such Purchased Accounts, or otherwise exercise, to the maximum extent permitted by applicable law, any other right now existing or hereafter arising with respect to any of such Purchased Accounts. If Seller receives payment of all or any portion of any of such Purchased Accounts or any other Account, Seller shall notify FGI immediately and shall hold all checks and other instruments so received in trust for FGI and shall deliver to FGI such checks and other instruments without delay.

Section 8. **Payments Received by Seller.** Should Seller receive payment of all or any portion of any Purchased Account, Seller shall immediately notify FGI of the receipt of the payment, hold said payment in trust for FGI separate and apart from Seller's own property and funds, and shall deliver said payment to FGI without delay in the identical form in which received. Should Seller receive any check or other payment instrument with respect to a Purchased Account or after default any Account and fail to surrender and deliver to FGI said check or payment instrument within two (2) business days, FGI shall be entitled to charge Seller a Misdirected Payment Fee to compensate FGI for the additional administrative expenses that the parties acknowledge is likely to be incurred as a result of such breach. In the event any Goods, the sale of which gave rise to a Purchased Account, are returned to or repossessed by Seller, such Goods shall be held by Seller in trust for FGI, separate and apart from Seller's own property and subject to FGI's sole direction and control.

Section 9. **Power of Attorney**. Seller grants to FGI an irrevocable power of attorney authorizing and permitting FGI, at its option, with or without notice to Seller to do any or all of the following: (a) Endorse the name of Seller on any checks or other evidences of payment whatsoever that may come into the possession of FGI regarding Purchased Accounts or Collateral, including checks received by FGI pursuant to Section 9 hereof; (b) Receive, open and dispose of any mail addressed to Seller and put FGI's address on any statements mailed to Account Debtors; (c) Pay, settle, compromise, prosecute or defend any action, claim, conditional waiver and release, or proceeding relating to Purchased Accounts or Collateral; (d) Upon the occurrence of an Event of Default, notify in the name of the Seller, the U.S. Post Office to change the address for delivery of mail addressed to Seller to such address as FGI may designate, however, FGI shall turn over to Seller all such mail not relating to Purchased Accounts or Collateral; (e) File any financing statement deemed necessary or appropriate by FGI to protect FGI's interest in and to the Purchased Accounts or Collateral, or under any provision of this Agreement; (f) Effect debits to any Demand Deposit or other account that Seller or Seller's principals who have executed a guaranty agreement maintain at any Bank for any sums due to or from the Seller under this Agreement; and (g) To do all other things necessary and proper in order to carry out this Agreement. The authority granted to FGI herein is irrevocable until this Agreement is terminated and all Obligations are fully satisfied.

Section 10. **Default and Remedies**. An Event of Default shall be deemed to have occurred hereunder and FGI may immediately exercise its rights and remedies with respect to the Purchased Accounts and the Collateral under this Agreement, upon the happening of one or more of the following: (a) Seller shall fail to pay as and when due any amount owed to FGI; (b) There shall be commenced by or against Seller any voluntary or involuntary case under the Federal Bankruptcy Code, or any assignment for the benefit of creditors, or appointment of a receiver or custodian; (c) Seller shall become insolvent in that its debts are greater than the fair value of its assets, or Seller is generally not paying its debts as they become due; (d) Any involuntary lien, garnishment, attachment or the like shall be issued against or shall attach to the Purchased Accounts, the Collateral or any portion thereof and the same is not released within ten (10) days; (e) Seller suffers the entry against it for a final judgment for the payment of money in excess of $10,000.00, unless the same is discharged within thirty (30) days after the date of entry thereof or an appeal or appropriate proceeding for review thereof is taken within such periods and a stay of execution pending such appeal is obtained; (f) Seller shall breach any covenant, warranty or representation set forth herein or same shall be untrue when made; (g) Any report, certificate, schedule, financial statement, profit and loss statement or other statement furnished by Seller, or by any other person on behalf of Seller, to FGI is not true and correct in any material respect; (h) Seller shall have a federal or state tax lien filed against any of its properties, or shall fail to pay any federal or state tax when due, or shall fail to file any federal or state tax form as and when due; or (i) A material adverse change shall have occurred in Seller's financial conditions, business or operations. Upon an Event of Default, all obligations due FGI shall become immediately due and owing and FGI shall be entitled to any form of equitable relief that may be appropriate without having to establish any inadequate remedy at law or other grounds other than to establish that its Collateral is subject to being improperly used, moved, dissipated or withheld from FGI. FGI shall be entitled to freeze, debit and/or effect a set-off against any fund or account Seller may maintain with any Bank. In the event FGI deems it necessary to seek equitable relief, including, but not limited to, injunctive or receivership remedies, as a result of and Event of Default, Seller waives any requirement that FGI post or otherwise obtain or procure any bond. Alternatively, in the event FGI, in its sole and exclusive discretion, desires to procure and post a bond, FGI may procure and file with the court a bond in an amount up to and not greater than $10,000.00 notwithstanding any common or statutory law requirement to the contrary. Upon FGI's posting of such bond it shall be entitled to all benefits as if such bond was posted in compliance with state law. Seller also waives any right it may be entitled to, including an award of attorney's fees or costs, in the event any equitable relief sought by and awarded to FGI is thereafter, for whatever reason(s), vacated, dissolved or reversed. All post-judgment interest shall bear interest at either the contract rate, 18% per annum or such higher rate as may be allowed by law.

Section 11. **Cumulative Rights; Waivers**. All rights, remedies and powers granted to FGI in this Agreement, or in any other instrument or agreement given to Seller to FGI or otherwise available to FGI in equity or at law, are cumulative and may be exercised singularly or concurrently with such other rights as FGI may have. These rights may be exercised from time to time as to all or any part of the Purchased Accounts purchased hereunder or the Collateral as FGI in its discretion may determine. In the event that any part of this transaction between Seller and FGI is construed to be a loan from FGI to Seller, any advances or payments made as the Purchase Price for all Purchased Accounts shall be secured by the Purchased Accounts and the Collateral and FGI shall have all rights and remedies available to FGI in addition to its rights and remedies hereunder. FGI may not be held to have waived its rights and remedies unless the waiver is in writing and signed by FGI. A waiver by FGI of a right, remedy or default under this Agreement on one occasion is not a waiver of any right, remedy or default on any subsequent occasion. Any failure by FGI to exercise, or any delay by FGI of such right or any other right, nor in any manner impair the subsequent exercise by FGI of any of its rights.

Section 12. **Notices**. Any notice or communication with respect to this Agreement shall be given in writing, sent by (i) personal delivery, or (ii) expedited delivery service with proof of delivery, or (iii) United States mail, postage prepaid, registered or certified mail, or (iv) prepaid telegram, telex or telecopy, addressed to each party hereto at its address set forth below or to such other address or to the attention of such other person as hereafter shall be designated in writing by the applicable party sent in accordance herewith. Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of telegram, telex or telecopy, upon receipt.

FGI Finance	Coda Octopus
80 Pine Street	245 Park Avenue
32nd Floor	39th Floor
New York, NY 10005	New York, NY 10005

Section 13. **Term**. The Original Term of this Agreement shall be from the date hereof until September 1, 2006, provided that this Agreement shall be extended automatically for an additional one (1) year for each succeeding year unless written notice of termination is given by one party hereto to the other party hereto at least sixty (60) days, but not more than ninety (90) days, prior to the end of the Original Term or any extension thereof. Any such notice of termination, however, and notwithstanding payment in full of all Obligations by Seller, is conditioned on Seller's delivery, to FGI, of a general release in a form reasonably satisfactory to Purchaser. Seller understands that this provision constitutes a waiver of its rights under § 9-513 of the UCC. FGI shall not be required to record any terminations or satisfactions of any of FGI's liens on the Collateral unless and until Seller has executed and delivered to FGI said general release and Seller shall have no authority to do so without FGI's express written consent. In the event prior to maturity this Agreement is terminated for any reason, Seller shall pay to FGI an early Termination Fee in the amount of thirty five thousand dollars ($35,000). Any termination of this Agreement shall not affect FGI's security interest in the Collateral and FGI's ownership of the Purchased Accounts, and this Agreement shall continue to be effective, until all transactions entered into and obligations incurred hereunder have been completed and satisfied in full. Notwithstanding anything to the contrary, and assuming no default by Seller in which event FGI may terminate without notice, FGI may terminate this Agreement at any time by giving not less than thirty (30) days notice in which event, Seller shall not be obligated to pay any Termination Fee.

Section 14. **Attorney's Fees**. Seller agrees to reimburse FGI upon demand for all reasonable attorney's fees, court costs and other expenses incurred by FGI in preparation, negotiation and enforcement of this Agreement and protecting or enforcing its interest in the Accounts or the Collateral, in collecting the Accounts or the Collateral, or in the representation of FGI in connection with any bankruptcy case or insolvency proceeding involving Seller, the Collateral, any Account Debtor or any Accounts including any defense of any Avoidance Claims. Seller hereby authorizes FGI, at FGI's sole discretion, to deduct such fees, costs and expenses from the Required Reserve Account or may make demand therefore. Notwithstanding the existence of any law, statute or rule, in any jurisdiction which may provide Seller with a right to attorney's fees or costs, Seller hereby waives any and all rights to hereafter seek attorney's fees or costs hereunder and Seller agrees that FGI exclusively shall be entitled to indemnification and recovery of any and all attorney's fees or costs in respect to any litigation based hereon, arising out of, or related hereto, whether under, or in connection with, this and/or any agreement executed in conjunction herewith, or any course of conduct, course of dealing, statements (whether verbal or written) or actions of either party.

Section 15. **Indemnity**. Seller hereby indemnifies and agrees to hold harmless and defend FGI from and against any and all claims, judgments, liabilities, fees and expenses (including attorney's fees) which may be imposed upon, threatened or asserted against FGI at any time and from time to time in any way connected with this Agreement or the Collateral. The foregoing indemnification shall apply whether or not such indemnified claims are in any way or to any extent owed, in whole or in part, under any claim or theory of strict liability, or are caused, in whole or in part, by any negligent act or omission of FGI.

Section 16. **Severability**. Each and every provision, condition, covenant and representation contained in this Agreement is, and shall be construed to be, a separate and independent covenant and agreement. If any term or provision of this Agreement shall to any extent be invalid or unenforceable, the remainder of the Agreement shall not be affected thereby.

Section 17. **Parties in Interest**. All grants, covenants and agreements contained in this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Seller may not delegate or assign any of its duties or obligations under this Agreement without the prior written consent of FGI. FGI reserves the right to assign its rights and obligations under this agreement in whole or in part to any person or entity.

Section 18. **Governing Law: Submission to Process and Venue.** This agreement shall be deemed a contract made under the laws of the State of New York and shall be construed and enforced in accordance with and governed by the internal laws of the State of New York, without reference to the rules thereof relating to conflicts of law. Seller hereby irrevocably submits itself to the exclusive jurisdiction of the state and federal courts located in New York, and agrees and consents that service of process may be made upon it in any legal proceeding relating to this agreement, the purchase of Accounts or any other relationship between FGI and Seller by any means allowed under state or federal law. Any legal proceeding arising out of or in any way related to this Agreement, the purchase of Accounts or any other relationship between FGI and Seller shall be brought and litigated in any of the state or federal courts located in the State of New York in any county in which FGI has a business location, the selection of which shall be in the exclusive discretion of FGI. Seller hereby waives and agrees not to assert, by way of motion, as a defense or otherwise, that any such proceeding, is brought in any inconvenient forum or that the venue thereof is improper.

Section 19. **Complete Agreement.** This Agreement, the written documents executed pursuant to this Agreement, if any, and the acknowledgment delivered in connection herewith set forth the entire understanding and agreement of the parties hereto with respect to the transactions contemplated herein and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. No modification or amendment of or supplement to this Agreement shall be valid or effective unless the same is in writing and signed by the party against whom it is sought to be enforced.

Section 20. **Miscellaneous.**

(a) Seller acknowledges that there is no, and it will not seek or attempt to establish any, fiduciary relationship between FGI and Seller, and Seller waives any right to assert, now or in the future, the existence or creation of any fiduciary relationship between FGI and Seller in any action or proceeding (whether by way of claim, counterclaim, crossclaim or otherwise) for damages.

(b) This Agreement shall be deemed to be one of financial accommodation and not assumable by any debtor, trustee or debtor-in-possession in any bankruptcy proceeding without FGI's express written consent and may be suspended in the event a petition in bankruptcy is filed by or against Seller.

(c) In the event Seller's principals, officers or directors form a new entity, whether corporate, partnership, limited liability company or otherwise, similar to that of Seller during the term of this Agreement, such entity shall be deemed to have expressly assumed the obligations due FGI by Seller under this Agreement. Upon the formation of any such entity, FGI shall be deemed to have been granted an irrevocable power of attorney with authority to execute, on behalf of the newly formed successor business, a new UCC-1 or UCC-3 financing statement and have it filed with the appropriate secretary of state or UCC filing office. FGI shall be held-harmless and be relieved of any liability statement or the resulting perfection of a lien in any of the successor entity's assets. In addition, FGI shall have the right to notify the successor entity's account debtors of FGI's lien rights, its right to collect all Accounts, and to notify any new FGI or lender who has sought to procure a competing lien of FGI's right is in such successor entity's assets.

(d) Seller expressly authorizes FGI to access the systems of and/or communicate with any shipping or trucking company in order to obtain or verify tracking, shipment or delivery status of any Goods regarding a Purchased Account.

(e) Seller's principal(s) acknowledge that the duty to accurately complete each Schedule of Accounts is critical to this Agreement and as such all obligations with respect thereto are non-delegable. Each of Seller's principal(s) acknowledge that he/she shall remain fully responsible for the accuracy of each Schedule of Accounts delivered to FGI regardless of who is delegated the responsibility to prepare and/or complete such Schedule of Accounts.

(f) Seller shall indemnify FGI from any loss arising out of the assertion of any Avoidance Claim. Seller shall notify FGI within two (2) business days of it becoming aware of the assertion of an Avoidance Claim.

(g) Seller agrees to execute any and all forms (i.e. Forms 8821 and/or 2848) that FGI may require in order to enable FGI to obtain and receive tax information issued by the Department of the Treasury, Internal Revenue Service, or receive refund checks.

(h) Seller will cooperate with FGI in obtaining a control agreement in form and substance satisfactory to FGI with respect to Collateral consisting of: Deposit Accounts; Investment Property; Letter-of-credit rights; and Electronic chattel paper.

Section 21. **Waiver of Jury Trial, Punitive and Consequential Damages, Etc. Seller and FGI hereby (a) irrevocably waive any right either may have to a trial by jury in respect of any litigation directly or indirectly at any time arising out of, under or in connection with this Agreement or any transaction contemplated hereby or associated herewith; (b) Seller irrevocably waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any such litigation any special, exemplary, punitive or consequential damages, or damages other than, or in addition to, actual damages and Seller hereby releases and exculpates FGI, its officers, employees and designees, from any liability arising from any acts under this Agreement or in furtherance thereof whether of omission or commission, and whether based upon any error of judgment or mistake of law or fact, except for willful misconduct ; (c) and Seller certifies that no party hereto nor any representative or agent or counsel for any party hereto has represented, expressly or otherwise, or implied that such party would not, in the event of litigation, seek to enforce the foregoing waivers; and (d) Seller acknowledges that FGI has been induced to enter into this Agreement and the transactions contemplated hereby, in part, as a result of the mutual waivers and certifications contained in this Section**.

In Witness Whereof, the parties have set their hands and seals on the day and year first hereinabove written.

_____ FAUNUS GROUP INTERNATIONAL, INC.
Witness

By:_____
Name: David M. DiPiero
Title: President

_____ CODA OCTOPUS GROUP, INC.
Witness

By:_____
Name:_____
Title:_____

STATE OF _____)
COUNTY OF _____)

I HEREBY CERTIFY that on this day personally appeared before me, officers duly authorized to administer oaths and take acknowledgements, _____, as _____ of _____, a _____ Corporation ( ) who has produced the following identification: _____ or ( ) who is personally known to me, and who acknowledged before me that he executed the same for the purposes therein expressed, as the act and deed of said corporation.

WITNESS my hand and official seal in the County and State last aforesaid on this _____ day of _____, 200_.

_____
Notary Public, State of _____
My Commission Expires:

SCHEDULE "A"

Definitions

"Account(s)" includes a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of or (ii) for services rendered or to be rendered.

"Account Debtor" or "Customer" means any Person who is obligated on an Account, Chattel Paper or General Intangible.

"Advance" means amounts advanced by FGI to the Seller under this Agreement.

"Agreement" means this Agreement, including the Ex-hibits and any Schedules hereto, and all amendments, modifications and supple-ments hereto and thereto and restatements hereof and thereof.

"Application" means each application made by Seller in connection with this Agreement.

"Avoidance Claim" means any claim that any payment received by FGI from or for the account of an Account Debtor is avoidable under the Bankruptcy Code or any other debtor relief statute.

"Chattel Paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods.

"Collateral" means and includes all of the Sellers' right, title and interest in and to each of the following, wherever located and whether now or hereafter existing or now owned or here-after acquired or arising: (a) all Accounts, (b) Chattel Paper, (c) Commercial Tort Claims, (d) Deposit Accounts, (e) Documents, (f) Equipment, (g) General Intangibles, (h) Goods (including but not limited to all files, correspondence, computer programs, tapes, disks and related data processing software which contain informa-tion identifying or pertaining to any of the Collateral or any Account Debtor or showing the amounts thereof or payments thereon or otherwise necessary or helpful in the realization thereon or the collection thereof, (i) Inventory, (j) Investments, (k) Investment Property, (l) Letters of Credit and Letter of Credit rights and (m) all Supporting Obligations.

"Commercial Tort Claim" means a claim arising in tort with respect to which: (A) The claimant is an organization; or (B) The claimant is an individual and the claim: (i) arose in the course of the claimant's business or profession; and (ii) does not include damages arising out of personal injury to or the death of an individual.

"Credit Approval(s) and Credit Approved" means, with regard to a Purchase Account, that FGI has accepted the risk of nonpayment as specified under the terms and conditions of this Agreement and with regard to the specific Purchased Accounts for which written credit approval has been given. I f a customer, after receiving and accepting the delivery of Goods or services (subject to all warranties herein) for which FGI has given written Credit Approval, fails to pay a Purchased Account when due, and such nonpayment is due solely to financial inability to pay, FGI shall bear any loss thereon, subject to the terms and provisions stated herein. If nonpayment is due to any reason besides financial inability to pay, however, FGI shall not be responsible. Specifically, FGI shall not be responsible for any nonpayment of a Credit Approved Purchased Account: (a) because of the assertion of any claim or dispute by a customer for any reason whatsoever, including, without limitation, dispute as to price, terms of sales, delivery, quantity, quality, or other, or the exercise of any counterclaim or offset (whether or not such claim, counterclaim or offset relates to the specific Purchased Account); (b) where nonpayment is a consequence of enemy attack, civil commotion, strikes, lockouts, the act or restraint of public authorities, acts of God or force majeure; or (c) if any representation or warranty made by Seller to FGI in respect of such Purchased Account has been breached whether intentionally or unintentionally. The assertion of a dispute by a customer shall have the effect of negating any Credit Approval on the affected Purchased Account(s) and such Purchased Account(s) shall be at Full Recourse until paid or otherwise cleared from FGI's books.

"Date of Collection" means the date a check, draft or other item representing payment on an invoice is received by FGI plus seven (7) business days.

"Default" means any of the events specified in Section 10 of this Agreement that, with the passage of time or giving of notice or both, would con-stitute an Event of Default.

"Deposit Account" means any demand, time, savings, passbook or like account maintained with a bank, savings and loan association, credit union or like organization, other than an account evidenced by a certificate of deposit that is an instrument under the UCC.

"Dispute or Disputed Account" means any claim, whether or not provable, bona fide, or with or without support, made by an Account Debtor as a basis for refusing to pay a Purchased Account, either in whole or in part, including, but not limited to, any contract dispute, charge back, credit, right to return Goods, or other matter which diminishes or may diminish the dollar amount or timely collection of such Account.

"Documents" means a document of title or a receipt of the type described in UCC 7-201(2).

"Equipment" means Goods other than Inventory.

"Event of Default" means any of the events specified in Section 10 of this Agreement.

"Financial Inability to Pay" means an Account Debtor's insolvency such that the value of its assets are exceeded by its fixed, liquidated and non-contingent liabilities.

"Financing Statement" means each Uniform Commercial Code financing statement naming FGI as purchaser/secured party and the Seller as Seller/debtor, in connection with this Agreement.

"Full Recourse" means those Purchased Accounts for which FGI has not given Credit Approval, for which Credit Approval has been withdrawn or revoked or with respect to which FGI is not responsible under section 2.

"GAAP" means generally accepted accounting principles con-sis-tently applied and maintained throughout the period indicated and consistent with the prior financial practice of the Person referred to.

"General Intangible" means any personal property, including things in action, other than Accounts, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, Goods, Inventory, Investment Property, Letters of Credit rights, Letters of Credit and Money. Payment Intangibles and software, however, are included.

"Goods" means all things that are movable when a security interest attaches. The term does not include Accounts, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, General Intangibles, Instruments, Investment Property, Letter of Credit Rights, Letters of Credit or Money.

"Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary endorsement or assignment. The term does not include (i) Investment Property, (ii) Letters of Credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for us with the card.

"Inventory" means Goods which are leased by Seller as lessor, are held by Seller for sale or lease or to be furnished under a contract of service or raw materials, work in process, or materials used or consumed in Seller's business.

"Investment Property" means a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract, or commodity account.

"Letter of Credit Right" a right to payment or performance under a Letter of Credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance. The term does not include the right of a beneficiary to demand payment or performance under a Letter of Credit.

"Lien" means, as applied to the property of any Person, the filing of, or any agreement to give, any finan-cing statement under the UCC or its equivalent in any jurisdiction.

"Misdirected Payment Fee" means fifteen percent (15%) of the amount of any payment on account of a Purchased Account which has been received by Seller and not delivered in kind to FGI on the next business day following the date of receipt by Seller.

"Net Invoice Amount" means the invoice amount of the Purchased Account, less returns (whenever made), all selling discounts (at FGI's option, calculated on shortest terms), and credit or deductions of any kind allowed or granted to or taken by the customer at any time.

"Obligations" means all present and future obligations owing by Seller to FGI whether or not for the payment of money, whether or not evidenced by any note or other instrument, whether direct or indirect, absolute or contingent, due or to become due, joint or several, primary or secondary, liquidated or unliquidated, secured or unsecured, original or renewed or extended, whether arising before, during or after the commencement of any Bankruptcy Case in which Seller is a Debtor, including but not limited to any obligations arising pursuant to letters of credit or acceptance transactions or any other financial accommodations.

"Original Term" means the term of this Agreement as reflected in section 13 and "Term" means the Original Term and any extensions thereof.

"Person" means an individual, corporation, partnership, assoc-iation, trust or unincorporated organization or a government or any agency or political subdivision thereof.

"Purchase Price" means the price that FGI pays Seller for each Purchased Account which price shall equal the Net Invoice Amount less FGI's service commission.

"Purchased Account(s)" means an Account which is deemed acceptable for purchase as determined by FGI in the exercise of its reasonable sole credit or business judgment and for which FGI has made payment of the sum specified in Section 2 below constituting FGI's acceptance of an Account.

"Reserve Account" means a bookkeeping account on the books of the FGI representing an unpaid portion of the Purchase Price, maintained by FGI to ensure Seller's performance with the provisions hereof.

"Reserve Percentage" means twenty five percent (20%) of the face amount of the Purchased Accounts and as such percent may change in accordance herewith.

"Reserve Shortfall" means the amount by which the Reserve Account is less than the Required Reserve Amount.

"Required Reserve Amount" means the Reserve Percentage multiplied by the unpaid balance of all Purchased Accounts.

"Schedule of Accounts" - - a form supplied by FGI from time to time wherein Seller lists those Accounts it requests FGI purchase under the terms of this Agreement.

"Security Interest" means the Liens of FGI on and in the Collateral affected hereby or pursuant to the terms hereof or thereof.

"Supporting Obligation" means a Letter of Credit Right or secondary obligation that supports the payment or performance of an Account, Chattel paper, a Document, a General Intangible, an Instrument, or Investment Property.

"Termination Fee" means a fee payable to FGI in the event Seller terminates this Agreement prior to maturity of the Original Term or Term of this Agreement.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of New York.

STANDARD FORM OF OFFICE LEASE
The Real Estate Board of New York, Inc.

Agreement of Lease, made as of this 1st day of June in the year 2007, between

Nelco Inc

party of the first part, hereinafter referred to as OWNER, and

CODA OCTOPUS GROUP INC

party of the second part, hereinafter referred to as TENANT,

Witnesseth: Owner hereby leases to Tenant and Tenant hereby hires from Owner

6TH FLOOR LOFT 6F

in the building known as 164 W 25TH STREET
in the Borough of Manhattan, City of New York, for the term of

6 MONTHS

(or until such term shall sooner cease and expire as hereinafter provided) to commence on the 1st day of June in the year 2007, and to end on the 30th day of November in the year 2007, and both dates inclusive, at the annual rental rate of

$30,000.00 annually ($2,500.00 a month)

which Tenant agrees to pay in lawful money of the United States, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, in equal monthly installments in advance on the first day of each month during said term, at the office of Owner or such other place as Owner may designate, without any setoff or deduction whatsoever, except that Tenant shall pay the first 0 monthly installment(s) on the execution hereof (unless this lease be a renewal).

In the event that, at the commencement of the term of this lease, or thereafter, Tenant shall be in default in the payment of rent to Owner pursuant to the terms of another lease with Owner or with Owner's predecessor in interest, Owner may at Owner's option and without notice to Tenant add the amount of such arrears to any monthly installment of rent payable hereunder and the same shall be payable to Owner as additional rent.

The parties hereto, for themselves, their heirs, distributees, executors, administrators, legal representatives, successors and assigns, hereby covenant as follows:

Rent: 1. Tenant shall pay the rent as above and as hereinafter provided.

Occupancy: 2. Tenant shall use and occupy the demised premises for OFFICE USE ONLY, RESIDENTIAL USE PROHIBITED and for no other purpose.

Tenant Alterations: 3. Tenant shall make no changes in or to the demised premises of any nature without Owner's prior written consent. Subject to the prior written consent of Owner, and to the provisions of this article, Tenant, at Tenant's expense, may make alterations, installations, additions or improvements which are non-structural and which do not affect utility services or plumbing and electrical lines, in or to the interior of the demised premises, by using contractors or mechanics first approved in each instance by Owner. Tenant shall, before making any alterations, additions, installations or improvements, at its expense, obtain all permits, approvals and certificates required by any governmental or quasi-governmental bodies and (upon completion) certificates of final approval thereof, and shall deliver promptly duplicates of all such permits, approvals and certificates to Owner, and Tenant agrees to carry, and will cause Tenant's contractors and sub-contractors to carry, such worker's compensation, commercial general liability, personal and property damage insurance as Owner may require. If any mechanic's lien is filed against the demised premises, or the building of which the same forms a part, for work claimed to have been done for, or materials furnished to, Tenant, whether or not done pursuant to this article, the same shall be discharged by Tenant within thirty days thereafter, at Tenant's expense, by payment or filing a bond as permitted by law. All fixtures and all paneling, partitions, railings and like installations, installed in the demised premises at any time, either by Tenant or by Owner on Tenant's behalf, shall, upon installation, become the property of Owner and shall remain upon and be surrendered with the demised premises unless Owner, by notice to Tenant no later than twenty days prior to the date fixed as the termination of this lease, elects to relinquish Owner's right thereto and to have them removed by Tenant, in which event the same shall be removed from the demised premises by Tenant prior to the expiration of the lease, at Tenant's expense. Nothing in this article shall be construed to give Owner title to, or to prevent Tenant's removal of, trade fixtures, moveable office furniture and equipment, but upon removal of same from the demised premises or upon removal, of other installations as may be required by Owner, Tenant shall immediately, and at its expense, repair and restore the demised premises to the condition existing prior to any such installations, and repair any damage to the demised premises or the building due to such removal. All property permitted or required to be removed by Tenant at the end of the term remaining in the demised premises after Tenant's removal shall be deemed abandoned and may, at the election of Owner, either be retained as Owner's property or may be removed from the demised premises by Owner, at Tenant's expense.

Maintenance and Repairs: 4. Tenant shall, throughout the term of this lease, take good care of the demised premises and the fixtures and appurtenances therein. Tenant shall be responsible for all damage or injury to the demised premises or any other part of the building and the systems and equipment thereof, whether requiring structural or nonstructural repairs caused by, or resulting from, carelessness, omission, neglect or improper conduct of Tenant, Tenant's subtenants, agents, employees, invitees or licensees, or which arise out of any work, labor, service or equipment done for, or supplied to, Tenant or any subtenant, or arising out of the installation, use or operation of the property or equipment of Tenant or any subtenant. Tenant shall also repair all damage to the building and the demised premises caused by the moving of Tenant's fixtures, furniture and equipment. Tenant shall promptly make, at Tenant's expense, all repairs in and to the demised premises for which Tenant is responsible, using only the contractor for the trade or trades in question, selected from a list of at least two contractors per trade submitted by Owner. Any other repairs in or to the building or the facilities and systems thereof, for which Tenant is responsible, shall be performed by Owner at the Tenant's expense. Owner shall maintain in good working order and repair the exterior and the structural portions of the building, including the structural portions of the demised premises, and the public portions of the building interior and the building plumbing, electrical, heating and ventilating systems (to the extent such systems presently exist) serving the demised premises. Tenant agrees to give prompt notice of any defective condition in the demised premises for which Owner may be responsible hereunder. There shall be no allowance to Tenant for diminution of rental value and no liability on the part of Owner by reason of inconvenience, annoyance or injury to business arising from Owner or others making repairs, alterations, additions or improvements in or to any portion of the building or the demised premises, or in and to the fixtures, appurtenances or equipment thereof. It is specifically agreed that Tenant shall not be entitled to any setoff or reduction of rent by reason of any failure of Owner to comply with the covenants of this or any other article of this lease. Tenant agrees that Tenant's sole remedy at law in such instance will be by way of an action for damages for breach of contract. The provisions of this Article 4 shall not apply in the case of fire or other casualty, which are dealt with in Article 9 hereof.

Window Cleaning: 5. Tenant will not clean nor require, permit, suffer or allow any window in the demised premises to be cleaned from the outside in violation of Section 202 of the Labor Law or any other applicable law, or of the Rules of the Board of Standards and Appeals, or of any other Board or body having or asserting jurisdiction.

Requirements of Law, Fire Insurance, Floor Loads: 6. Prior to the commencement of the lease term, if Tenant is then in possession, and at all times thereafter, Tenant, at Tenant's sole cost and expense, shall promptly comply with all present and future laws, orders and regulations of all state, federal, municipal and local governments, departments, commissions and boards and any direction of any public officer pursuant to law, and all orders, rules and regulations of the New York Board of Fire Underwriters, Insurance Services Office, or any similar body which shall impose any violation, order or duty upon Owner or Tenant with respect to the demised premises, whether or not arising out of Tenant's use or manner of use thereof, (including Tenant's permitted use) or, with respect to the building if arising out of Tenant's use or manner of use of the demised premises or the building (including the use permitted under the lease). Nothing herein shall require Tenant to make structural repairs or alterations unless Tenant has, by its manner of use of the demised premises or method of operation thereon, violated any such laws, ordinances, orders, rules, regulations or requirements with respect thereto. Tenant may, after securing Owner to Owner's satisfaction against all damages, interest, penalties and expenses, including, but not limited to, reasonable attorney's fees, by cash deposit or by surety bond in an amount and in a company satisfactory to Owner, contest and appeal any such laws, ordinances, orders, rules, regulations or

requirements provided same is done with all reasonable promptness and provided such appeal shall not subject Owner to prosecution for a criminal offense, or constitute a default under any lease or mortgage under which Owner may be obligated, or cause the demised premises or any part thereof to be condemned or vacated. Tenant shall not do or permit any act or thing to be done in or to the demised premises which is contrary to law, or which will invalidate or be in conflict with public liability, fire or other policies of insurance at any time carried by or for the benefit of Owner with respect to the demised premises or the building of which the demised premises form a part, or which shall or might subject Owner to any liability or responsibility to any person, or for property damage. Tenant shall not keep anything in the demised premises, except as now or hereafter permitted by the Fire Department, Board of Fire Underwriters, Fire Insurance Rating Organization or other authority having jurisdiction, and then only in such manner and such quantity so as not to increase the rate for fire insurance applicable to the building, nor use the demised premises in a manner which will increase the insurance rate for the building or any property located therein over that in effect prior to the commencement of Tenant's occupancy. Tenant shall pay all costs, expenses, fines, penalties, or damages, which may be imposed upon Owner by reason of Tenant's failure to comply with the provisions of this article, and if by reason of such failure the fire insurance rate shall, at the beginning of this lease, or at any time thereafter, be higher than it otherwise would be, then, Tenant shall reimburse Owner, as additional rent hereunder, for that portion of all fire insurance premiums thereafter paid by Owner which shall have been charged because of such failure by Tenant. In any action or proceeding wherein Owner and Tenant are parties, a schedule or "make-up" of rate for the building or the demised premises issued by the New York Fire Insurance Exchange, or other body making fire insurance rates applicable to said premises shall be conclusive evidence of the facts therein stated and of the several items and charges in the fire insurance rates then applicable to said premises. Tenant shall not place a load upon any floor of the demised premises exceeding the floor load per square foot area which it was designed to carry and which is allowed by law. Owner reserves the right to prescribe the weight and position of all safes, business machines and mechanical equipment. Such installations shall be placed and maintained by Tenant, at Tenant's expense, in settings sufficient, in Owner's judgment, to absorb and prevent vibration, noise and annoyance.

Subordination: 7. This lease is subject and subordinate to all ground or underlying leases and to all mortgages which may now or hereafter affect such leases or the real property of which the demised premises are a part, and to all renewals, modifications, consolidations, replacements and extensions of any such underlying leases and mortgages. This clause shall be self-operative and no further instrument of subordination shall be required by any ground or underlying lessor or by any mortgagee, affecting any lease or the real property of which the demised premises are a part. In confirmation of such subordination, Tenant shall from time to time execute promptly any certificate that Owner may request.

Property Loss, Damage Reimbursement Indemnity: 8. Owner or its agents shall not be liable for any damage to property of Tenant or of others entrusted to employees of the building, nor for loss of or damage to any property of Tenant by theft or otherwise, nor for any injury or damage to persons or property resulting from any cause of whatsoever nature, unless caused by, or due to, the negligence of Owner, its agents, servants or employees. Owner or its agents will not be liable for any such damage caused by other tenants or persons in, upon or about said building, or caused by operations in construction of any private, public or quasi public work. If at any time any windows of the demised premises are temporarily closed, darkened or bricked up (or permanently closed, darkened or bricked up, if required by law) for any reason whatsoever including, but not limited to, Owner's own acts, Owner shall not be liable for any damage Tenant may sustain thereby, and Tenant shall not be entitled to any compensation therefore, nor abatement or diminution of rent, nor shall the same release Tenant from its obligations hereunder, nor constitute an eviction. Tenant shall indemnify and save harmless Owner against and from all liabilities, obligations, damages, penalties, claims, costs and expenses for which Owner shall not be reimbursed by insurance, including reasonable attorneys' fees, paid, suffered or incurred as a result of any breach by Tenant, Tenant's agents, contractors, employees, invitees, or licensees, of any covenant or condition of this lease, or the carelessness, negligence or improper conduct of the Tenant, Tenant's agents, contractors, employees, invitees or licensees. Tenant's liability under this lease extends to the acts and omissions of any subtenant, and any agent, contractor, employee, invitee or licensee of any subtenant. In case any action or proceeding is brought against Owner by reason of any such claim, Tenant, upon written notice from Owner, will, at Tenant's expense, resist or defend such action or proceeding by counsel approved by Owner in writing, such approval not to be unreasonably withheld.

Destruction, Fire and Other Casualty: 9. (a) If the demised premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give immediate notice thereof to Owner, and this lease shall continue in full force and effect except as hereinafter set forth. (b) If the demised premises are partially damaged or rendered partially unusable by fire or other casualty, the damages thereto shall be repaired by, and at the expense of, Owner, and the rent and other items of additional rent, until such repair shall be substantially completed, shall be apportioned from the day following the casualty, according to the part of the demised premises which is usable. (c) If the demised premises are totally damaged or rendered wholly unusable by fire or other casualty, then the rent and other items of additional rent, as hereinafter expressly provided, shall be proportionately paid up to the time of the casualty, and thenceforth shall cease until the date when the demised premises shall have been repaired and restored by Owner (or if sooner reoccupied in part by the Tenant then rent shall be apportioned as provided in subsection (b) above), subject to Owner's right to elect not to restore the same as hereinafter provided. (d) If the demised premises are rendered wholly unusable or (whether or not the demised premises are damaged in whole or in part) if the building shall be so damaged that Owner shall decide to demolish it or to rebuild it, then, in any of such events, Owner may elect to terminate this lease by written notice to Tenant, given within ninety (90) days after such fire or casualty, or thirty (30) days after adjustment of the insurance claim for such fire or casualty, whichever is sooner, specifying a date for the expiration of the lease, which date shall not be more than sixty (60) days after the giving of such notice, and upon the date specified in such notice the term of this lease shall expire as fully and completely as if such date were the date set forth above for the termination of this lease, and Tenant shall forthwith quit, surrender and vacate the demised premises without prejudice however, to Landlord's rights and remedies against Tenant under the lease provisions in effect prior to such termination, and any rent owing shall be paid up to such date, and any payments of rent made by Tenant which were on account of any period subsequent to such date shall be returned to Tenant. Unless Owner shall serve a termination notice as provided for herein, Owner shall make the repairs and restorations under the conditions of (b) and (c) hereof, with all reasonable expedition, subject to delays due to adjustment of insurance claims, labor troubles and causes beyond Owner's control. After any such casualty, Tenant shall cooperate with Owner's restoration by removing from the demised premises as promptly as reasonably possible, all of Tenant's salvageable inventory and movable equipment, furniture, and other property. Tenant's liability for rent shall resume five (5) days after written notice from Owner that the demised premises are substantially ready for Tenant's occupancy. (e) Nothing contained hereinabove shall relieve Tenant from liability that may exist as a result of damage from fire or other casualty. Notwithstanding anything contained to the contrary in subdivisions (a) through (e) hereof, including Owner's obligation to restore under subparagraph (b) above, each party shall look first to any insurance in its favor before making any claim against the other party for recovery for loss or damage resulting from fire or other casualty, and to the extent that such insurance is in force and collectible, and to the extent permitted by law, Owner and Tenant each hereby releases and waives all right of recovery with respect to subparagraphs (b), (d), and (e) above, against the other, or any one claiming through or under each of them by way of subrogation or otherwise. The release and waiver herein referred to shall be deemed to include any loss or damage to the demised premises and/or to any personal property, equipment, trade fixtures, goods and merchandise located therein. The foregoing release and waiver shall be in force only if both releasors' insurance policies contain a clause providing that such a release or waiver shall not invalidate the insurance. If, and to the extent, that such waiver can be obtained only by the payment of additional premiums, then the party benefitting from the waiver shall pay such premium within ten days after written demand or shall be deemed to have agreed that the party obtaining insurance coverage shall be free of any further obligation under the provisions hereof with respect to waiver of subrogation. Tenant acknowledges that Owner will not carry insurance on Tenant's furniture and/or furnishings or any fixtures or equipment, improvements, or appurtenances removable by Tenant, and agrees that Owner will not be obligated to repair any damage thereto or replace the same. (f) Tenant hereby waives the provisions of section 227 of the Real Property Law and agrees that the provisions of this article shall govern and control in lieu thereof.

Eminent Domain: 10. If the whole or any part of the demised premises shall be acquired or condemned by Eminent Domain for any public or quasi public use or purpose, then, and in that event, the term of this lease shall cease and terminate from the date of title vesting in such proceeding, and Tenant shall have no claim for the value of any unexpired term of said lease, and assigns to Owner, Tenant's entire interest in any such award. Tenant shall have the right to make an independent claim to the condemning authority for the value of Tenant's moving expenses and personal property, trade fixtures and equipment, provided Tenant is entitled pursuant to the terms of the lease to remove such property, trade fixtures and equipment at the end of the term, and provided further such claim does not reduce Owner's award.

Assignment, Mortgage, Etc.: 11. Tenant, for itself, its heirs, distributees, executors, administrators, legal representatives, successors and assigns, expressly covenants that it shall not assign, mortgage or encumber this agreement, nor underlet, or suffer or permit the demised premises or any part thereof to be used by others, without the prior written consent of Owner in each instance. Transfer of the majority of the stock of a corporate Tenant or the majority interest in any partnership or other legal entity which is Tenant shall be deemed an assignment. If this lease be assigned, or if the demised premises or any part thereof be underlet or occupied by anybody other than Tenant, Owner may, after default by Tenant, collect rent from the assignee, under-tenant or occupant, and apply the net amount collected to the rent herein reserved, but no such assignment, underletting, occupancy or collection shall be deemed a waiver of this covenant, or the acceptance of the assignee, undertenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of covenants on the part of Tenant herein contained. The consent by Owner to an assignment or underletting shall not in any way be construed to relieve Tenant from obtaining the express consent in writing of Owner to any further assignment or underletting.

Electric Current: 12. Rates and conditions in respect to submetering or rent inclusion, as the case may be, to be added in RIDER attached hereto. Tenant covenants and agrees that at all times its use of electric current shall not exceed the capacity of existing feeders to the building or the risers or wiring installation, and Tenant may not use any electrical equipment which, in Owner's opinion, reasonably exercised, will overload such installations or interfere with the use thereof by other tenants of the building. The change at any time of the character of electric service shall in no way make Owner liable or responsible to Tenant, for any loss, damages or expenses which Tenant may sustain.

Access to Premises: 13. Owner or Owner's agents shall have the right (but shall not be obligated) to enter the demised premises in any emergency at any time, and, at other reasonable times, to examine the same and to make such repairs, replacements and improvements as Owner may deem necessary and reasonably desirable to the demised premises or to any other portion of the building or which Owner may elect to perform. Tenant shall permit Owner to use and maintain and replace pipes, ducts, and conduits in and through the demised premises and to erect new pipes, ducts, and conduits therein, provided they are concealed within the walls, floor, or ceiling. Owner may, during the progress of any work in the demised premises, take all necessary materials and equipment into said premises without the same constituting an eviction, nor shall the Tenant be entitled to any abatement of rent while such work is in progress, nor to any damages by reason of loss or interruption of business or otherwise. Throughout the term hereof, Owner shall have the right to enter the demised premises at reasonable hours for the purpose of showing the same to prospective purchasers or mortgagees

Rider to be added if necessary

of the building, and during the last six months of the term, for the purpose of showing the same to prospective tenants. If Tenant is not present to open and permit an entry into the demised premises, Owner or Owner's agents may enter the same whenever such entry may be necessary or permissible by master key or forcibly, and provided reasonable care is exercised to safeguard Tenant's property, such entry shall not render Owner or its agents liable therefore, nor in any event shall the obligations of Tenant hereunder be affected. If during the last month of the term Tenant shall have removed all or substantially all of Tenant's property therefrom, Owner may immediately enter, alter, renovate or redecorate the demised premises without limitation or abatement of rent, or incurring liability to Tenant for any compensation, and such act shall have no effect on this lease or Tenant's obligations hereunder.

Vault, Vault Space, Area: **14.** No vaults, vault space or area, whether or not enclosed or covered, not within the property line of the building, is leased hereunder, anything contained in or indicated on any sketch, blue print or plan, or anything contained elsewhere in this lease to the contrary notwithstanding. Owner makes no representation as to the location of the property line of the building. All vaults and vault space and all such areas not within the property line of the building, which Tenant may be permitted to use and/or occupy, is to be used and/or occupied under a revocable license, and if any such license be revoked, or if the amount of such space or area be diminished or required by any federal, state or municipal authority or public utility, Owner shall not be subject to any liability, nor shall Tenant be entitled to any compensation or diminution or abatement of rent, nor shall such revocation, diminution or requisition be deemed constructive or actual eviction. Any tax, fee or charge of municipal authorities for such vault or area shall be paid by Tenant.

Occupancy: **15.** Tenant will not at any time use or occupy the demised premises in violation of the certificate of occupancy issued for the building of which the demised premises are a part. Tenant has inspected the demised premises and accepts them as is, subject to the riders annexed hereto with respect to Owner's work, if any. In any event, Owner makes no representation as to the condition of the demised premises, and Tenant agrees to accept the same subject to violations, whether or not of record.

Bankruptcy: **16.** (a) Anything elsewhere in this lease to the contrary notwithstanding, this lease may be cancelled by Owner by the sending of a written notice to Tenant within a reasonable time after the happening of any one or more of the following events: (1) the commencement of a case in bankruptcy or under the laws of any state naming Tenant (or a guarantor of any of Tenant's obligations under this lease) as the debtor; or (2) the making by Tenant (or a guarantor of any of Tenant's obligations under this lease) of an assignment or any other arrangement for the benefit of creditors under any state statute. Neither Tenant nor any person claiming through or under Tenant, or by reason of any statute or order of court, shall thereafter be entitled to possession of the premises demised but shall forthwith quit and surrender the demised premises. If this lease shall be assigned in accordance with its terms, the provisions of this Article 16 shall be applicable only to the party then owning Tenant's interest in this lease.

(b) It is stipulated and agreed that in the event of the termination of this lease pursuant to (a) hereof, Owner shall forthwith, notwithstanding any other provisions of this lease to the contrary, be entitled to recover from Tenant as and for liquidated damages, an amount equal to the difference between the rent reserved hereunder for the unexpired portion of the term demised and the fair and reasonable rental value of the demised premises for the same period. In the computation of such damages the difference between any installment of rent becoming due hereunder after the date of termination, and the fair and reasonable rental value of the demised premises for the period for which such installment was payable, shall be discounted to the date of termination at the rate of four percent (4%) per annum. If such demised premises or any part thereof be re-let by the Owner for the unexpired term of said lease, or any part thereof, before presentation of proof of such liquidated damages to any court, commission or tribunal, the amount of rent reserved upon such re-letting shall be deemed to be the fair and reasonable rental value for the part or the whole of the demised premises so re-let during the term of the re-letting. Nothing herein contained shall limit or prejudice the right of the Owner to prove for and obtain as liquidated damages, by reason of such termination, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, such damages are to be proved, whether or not such amount be greater, equal to, or less than, the amount of the difference referred to above.

Default: **17.** (1) If Tenant defaults in fulfilling any of the covenants of this lease other than the covenants for the payment of rent or additional rent; or if the demised premises become vacant or deserted, or if any execution or attachment shall be issued against Tenant or any of Tenant's property, whereupon the demised premises shall be taken or occupied by someone other than Tenant; or if this lease be rejected under §365 of Title 11 of the U.S. Code (Bankruptcy Code), or if Tenant shall have failed, after five (5) days written notice, to redeposit with Owner any portion of the security deposit hereunder which Owner has applied to the payment of any rent and additional rent due and payable hereunder; or if Tenant shall be in default with respect to any other lease between Owner and Tenant, or if Tenant shall fail to move into or take possession of the demised premises within thirty (30) days after the commencement of the term of this lease, then, in any one or more of such events, upon Owner serving a written fifteen (15) days notice upon Tenant specifying the nature of said default, and upon the expiration of said fifteen (15) days, if Tenant shall have failed to comply with or remedy such default, or if the said default or omission complained of shall be of a nature that the same cannot be completely cured or remedied within said fifteen (15) day period, and if Tenant shall not have diligently commenced curing such default within such fifteen (15) day period, and shall not thereafter with reasonable diligence and in good faith, proceed to remedy or cure such default, then Owner may serve a written five (5) days notice of cancellation of this lease upon Tenant, and upon the expiration of said five (5) days this lease and the term thereunder shall end and expire as fully and completely as if the expiration of such five (5) day period were the day herein definitely fixed for the end and expiration of this lease and the term thereof, and Tenant shall then quit and surrender the demised premises to Owner, but Tenant shall remain liable as hereinafter provided.

(2) If the notice provided for in (1) hereof shall have been given, and the term shall expire as aforesaid, or if Tenant shall make default in the payment of the rent reserved herein, or any item of additional rent herein mentioned, or any part of either, or in making any other payment herein required, then, and in any of such events, Owner may without notice, re-enter the demised premises either by force or otherwise, and dispossess Tenant by summary proceedings or otherwise, and the legal representative of Tenant or other occupant of the demised premises, and remove their effects and hold the demised premises as if this lease had not been made, and Tenant hereby waives the service of notice of intention to re-enter or to institute legal proceedings to that end. If Tenant shall make default hereunder prior to the date fixed as the commencement of any renewal or extension of this lease, Owner may cancel and terminate such renewal or extension agreement by written notice.

Remedies of Owner and Waiver of Redemption: **18.** In case of any such default, re-entry, expiration and/or dispossess by summary proceedings or otherwise, (a) the rent shall become due thereupon and be paid up to the time of such re-entry, dispossess and/or expiration, (b) Owner may re-let the demised premises or any part or parts thereof, either in the name of Owner or otherwise, for a term or terms, which may at Owner's option be less than or exceed the period which would otherwise have constituted the balance of the term of this lease, and may grant concessions or free rent or charge a higher rental than that in this lease, and/or (c) Tenant or the legal representatives of Tenant shall also pay to Owner as liquidated damages for the failure of Tenant to observe and perform said Tenant's covenants herein contained, any deficiency between the rent hereby reserved and/or covenanted to be paid and the net amount, if any, of the rents collected on account of the lease or leases of the demised premises for each month of the period which would otherwise have constituted the balance of the term of this lease. The failure of Owner to re-let the demised premises, or any part or parts thereof, shall not release or affect Tenant's liability for damages. In computing such liquidated damages there shall be added to the said deficiency such expenses as Owner may incur in connection with re-letting, such as legal expenses, reasonable attorney's fees, brokerage, advertising and for keeping the demised premises in good order or for preparing the same for re-letting. Any such liquidated damages shall be paid in monthly installments by Tenant on the rent day specified in this lease, and any suit brought to collect the amount of the deficiency for any month shall not prejudice in any way the rights of Owner to collect the deficiency for any subsequent month by a similar proceeding. Owner, in putting the demised premises in good order or preparing the same for re-rental may, at Owner's option, make such alterations, repairs, replacements, and/or decorations in the demised premises as Owner, in Owner's sole judgment, considers advisable and necessary for the purpose of re-letting the demised premises, and the making of such alterations, repairs, replacements, and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Owner shall in no event be liable in any way whatsoever for failure to re-let the demised premises, or in the event that the demised premises are re-let, for failure to collect the rent thereof under such re-letting, and in no event shall Tenant be entitled to receive any excess, if any, of such net rents collected over the sums payable by Tenant to Owner hereunder. In the event of a breach or threatened breach by Tenant of any of the covenants or provisions hereof, Owner shall have the right of injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. Mention in this lease of any particular remedy, shall not preclude Owner from any other remedy, in law or in equity. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Owner obtaining possession of the demised premises, by reason of the violation by Tenant of any of the covenants and conditions of this lease, or otherwise.

Fees and Expenses: **19.** If Tenant shall default in the observance or performance of any term or covenant on Tenant's part to be observed or performed under, or by virtue of, any of the terms or provisions in any article of this lease, after notice, if required, and upon expiration of any applicable grace period, if any, (except in an emergency), then, unless otherwise provided elsewhere in this lease, Owner may immediately, or at any time thereafter and without notice, perform the obligation of Tenant thereunder. If Owner, in connection with the foregoing, or in connection with any default by Tenant in the covenant to pay rent hereunder, makes any expenditures or incurs any obligations for the payment of money, including but not limited to reasonable attorneys' fees, in instituting, prosecuting or defending any action or proceeding, and prevails in any such action or proceeding, then Tenant will reimburse Owner for such sums so paid, or obligations incurred, with interest and costs. The foregoing expenses incurred by reason of Tenant's default shall be deemed to be additional rent hereunder, and shall be paid by Tenant to Owner within ten (10) days of rendition of any bill or statement to Tenant therefore. If Tenant's lease term shall have expired at the time of making of such expenditures or incurring of such obligations, such sums shall be recoverable by Owner, as damages.

Building Alterations and Management: **20.** Owner shall have the right at any time without the same constituting an eviction and without incurring liability to Tenant therefore, to change the arrangement and/or location of public entrances, passageways, doors, doorways, corridors, elevators, stairs, toilets or other public parts of the building, and to change the name, number or designation by which the building may be known. There shall be no allowance to Tenant for diminution of rental value and no liability on the part of Owner by reason of inconvenience, annoyance or injury to business arising from Owner or other Tenants making any repairs in the building or any such alterations, additions and improvements. Furthermore, Tenant shall not have any claim against Owner by reason of Owner's imposition of such controls of the manner of access to the building by Tenant's social or business visitors as the Owner may deem necessary for the security of the building and its occupants.

No Representations by Owner: **21.** Neither Owner nor Owner's agents have made any representations or promises with respect to the physical condition of the building, the land upon which it is erected or the demised premises, the rents, leases, expenses of operation or any other matter or

thing affecting or related to the demised premises, except as herein expressly set forth, and no rights, easements or licenses are acquired by Tenant by implication or otherwise, except as expressly set forth in the provisions of this lease. Tenant has inspected the building and the demised premises and is thoroughly acquainted with their condition and agrees to take the same "as-is", and acknowledges that the taking of possession of the demised premises by Tenant shall be conclusive evidence that the said premises and the building of which the same form a part were in good and satisfactory condition at the time such possession was so taken, except as to latent defects. All understandings and agreements heretofore made between the parties hereto are merged in this contract, which alone fully and completely expresses the agreement between Owner and Tenant, and any executory agreement hereafter made shall be ineffective to change, modify, discharge or effect an abandonment of it in whole or in part, unless such executory agreement is in writing and signed by the party against whom enforcement of the change, modification, discharge or abandonment is sought.

End of Term: **22.** Upon the expiration or other termination of the term of this lease, Tenant shall quit and surrender to Owner the demised premises, "broom-clean", in good order and condition, ordinary wear and damages which Tenant is not required to repair as provided elsewhere in this lease excepted, and Tenant shall remove all its property. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of this lease. If the last day of the term of this lease or any renewal thereof, falls on Sunday, this lease shall expire at noon on the preceding Saturday, unless it be a legal holiday, in which case it shall expire at noon on the preceding business day.

Quiet Enjoyment: **23.** Owner covenants and agrees with Tenant that upon Tenant paying the rent and additional rent and observing and performing all the terms, covenants and conditions, on Tenant's part to be observed and performed, Tenant may peaceably and quietly enjoy the premises hereby demised, subject, nevertheless, to the terms and conditions of this lease including, but not limited to, Article 31 hereof, and to the ground leases, underlying leases and mortgages hereinbefore mentioned.

Failure to Give Possession: **24.** If Owner is unable to give possession of the demised premises on the date of the commencement of the term hereof because of the holding-over or retention of possession of any tenant, undertenant or occupants, or if the demised premises are located in a building being constructed, because such building has not been sufficiently completed to make the demised premises ready for occupancy, or because of the fact that a certificate of occupancy has not been procured, or for any other reason, Owner shall not be subject to any liability for failure to give possession on said date and the validity of the lease shall not be impaired under such circumstances, nor shall the same be construed in any way to extend the term of this lease, but the rent payable hereunder shall be abated (provided Tenant is not responsible for Owner's inability to obtain possession or complete construction) until after Owner shall have given Tenant written notice that the Owner is able to deliver possession in condition required by this lease. If permission is given to Tenant to enter into possession of the demises premises, or to occupy premises other than the demised premises, prior to the date specified as the commencement of the term of this lease, Tenant covenants and agrees that such possession and/or occupancy shall be deemed to be under all the terms, covenants, conditions and provisions of this lease, except the obligation to pay the fixed annual rent set forth in the preamble to this lease. The provisions of this article are intended to constitute "an express provision to the contrary" within the meaning of Section 223-a of the New York Real Property Law.

No Waiver: **25.** The failure of Owner to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this lease or of any of the Rules or Regulations, set forth or hereafter adopted by Owner, shall not prevent a subsequent act which would have originally constituted a violation from having all the force and effect of an original violation. The receipt by Owner of rent and/or additional rent with knowledge of the breach of any covenant of this lease shall not be deemed a waiver of such breach, and no provision of this lease shall be deemed to have been waived by Owner unless such waiver be in writing signed by Owner. No payment by Tenant or receipt by Owner of a lesser amount than the monthly rent herein stipulated shall be deemed to be other than on account of the earliest stipulated rent, nor shall any endorsement or statement of any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Owner may accept such check or payment without prejudice to Owner's right to recover the balance of such rent or pursue any other remedy in this lease provided. No act or thing done by Owner or Owner's agents during the term hereby demised shall be deemed an acceptance of a surrender of the demised premises, and no agreement to accept such surrender shall be valid unless in writing signed by Owner. No employee of Owner or Owner's agent shall have any power to accept the keys of said premises prior to the termination of the lease, and the delivery of keys to any such agent or employee shall not operate as a termination of the lease or a surrender of the demised premises.

Waiver of Trial by Jury: **26.** It is mutually agreed by and between Owner and Tenant that the respective parties hereto shall, and they hereby do, waive trial by jury in any action proceeding or counterclaim brought by either of the parties hereto against the other (except for personal injury or property damage) on any matters whatsoever arising out of, or in any way connected with, this lease, the relationship of Owner and Tenant, Tenant's use of, or occupancy of, the demised premises, and any emergency statutory or any other statutory remedy. It is further mutually agreed that in the event Owner commences any proceeding or action for possession, including a summary proceeding for possession of the demised premises, Tenant will not interpose any counterclaim of whatever nature or description in any such proceeding, including a counterclaim under Article 4, except for statutory mandatory counterclaims.

Inability to Perform: **27.** This lease and the obligation of Tenant to pay rent hereunder and perform all of the other covenants and agreements hereunder on part of Tenant to be performed shall in no way be affected, impaired or excused because Owner is unable to fulfill any of its obligations under this lease, or to supply, or is delayed in supplying, any service expressly or impliedly to be supplied, or is unable to make, or is delayed in making, any repair, additions, alterations, or decorations, or is unable to supply, or is delayed in supplying, any equipment, fixtures, or other materials, if Owner is prevented or delayed from so doing by reason of strike or labor troubles or any cause whatsoever including, but not limited to, government preemption or restrictions, or by reason of any rule, order or regulation of any department or subdivision thereof of any government agency, or by reason of the conditions which have been or are affected, either directly or indirectly, by war or other emergency.

Bills and Notices: **28.** Except as otherwise in this lease provided, any notice, statement, demand or other communication required or permitted to be given, rendered or made by either party to the other, pursuant to this lease or pursuant to any applicable law or requirement of public authority, shall be in writing (whether or not so stated elsewhere in this lease) and shall be deemed to have been properly given, rendered or made, if sent by registered or certified mail (express mail, if available), return receipt requested, or by courier guaranteeing overnight delivery and furnishing a receipt in evidence thereof, addressed to the other party at the address hereinabove set forth (except that after the date specified as the commencement of the term of this lease, Tenant's address, unless Tenant shall give notice to the contrary, shall be the building), and shall be deemed to have been given, rendered or made (a) on the date delivered, if delivered to Tenant personally, (b) on the date delivered, if delivered by overnight courier or (c) on the date which is two (2) days after being mailed. Either party may, by notice as aforesaid, designate a different address or addresses for notices, statements, demand or other communications intended for it. Notices given by Owner's managing agent shall be deemed a valid notice if addressed and sent in accordance with the provisions of this Article. At Owner's option, notices and bills to Tenant may be sent by hand delivery.

Services Provided by Owner: **29.** As long as Tenant is not in default under any of the covenants of this lease beyond the applicable grace period provided in this lease for the curing of such defaults, Owner shall provide: (a) necessary elevator facilities on business days from 8 a.m. to 6 p.m. and have one elevator subject to call at all other times; (b) heat to the demised premises when and as required by law, on business days from 8 a.m. to 6 p.m.; (c) water for ordinary lavatory purposes, but if Tenant uses or consumes water for any other purposes or in unusual quantities (of which fact Owner shall be the sole judge), Owner may install a water meter at Tenant's expense, which Tenant shall thereafter maintain at Tenant's expense in good working order and repair, to register such water consumption, and Tenant shall pay for water consumed as shown on said meter as additional rent as and when bills are rendered; (d) cleaning service for the demised premises on business days at Owner's expense provided that the same are kept in order by Tenant. If, however, said premises are to be kept clean by Tenant, it shall be done at Tenant's sole expense, in a manner reasonably satisfactory to Owner, and no one other than persons approved by Owner shall be permitted to enter said premises or the building of which they are a part for such purpose. Tenant shall pay Owner the cost of removal of any of Tenant's refuse and rubbish from the building; (e) if the demised premises are serviced by Owner's air conditioning/cooling and ventilating system, air conditioning/cooling will be furnished to Tenant from May 15th through September 30th on business days (Mondays through Fridays, holidays excepted) from 8:00 a.m. to 6:00 pm., and ventilation will be furnished on business days during the aforesaid hours except when air conditioning/cooling is being furnished as aforesaid. If Tenant requires air conditioning/cooling or ventilation for more extended hours on Saturdays, Sundays or on holidays, as defined under Owner's contract with the applicable Operating Engineers contract, Owner will furnish the same at Tenant's expense. RIDER to be added in respect to rates and conditions for such additional service; (f) Owner reserves the right to stop services of the heating, elevators, plumbing, air-conditioning, electric, power systems or cleaning or other services, if any, when necessary by reason of accident, or for repairs, alterations, replacements or improvements necessary or desirable in the judgment of Owner, for as long as may be reasonably required by reason thereof. If the building of which the demised premises are a part supplies manually operated elevator service, Owner at any time may substitute automatic control elevator service and proceed diligently with alterations necessary therefor without in any way affecting this lease or the obligations of Tenant hereunder.

Captions: **30.** The Captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this lease nor the intent of any provisions thereof.

Definitions: **31.** The term "office", or "offices", wherever used in this lease, shall not be construed to mean premises used as a store or stores, for the sale or display, at any time, of goods, wares or merchandise, of any kind, or as a restaurant, shop, booth, bootblack or other stand, barber shop, or for other similar purposes, or for manufacturing. The term "Owner" means a landlord or lessor, and as used in this lease means only the owner, or the mortgagee in possession for the time being, of the land and building (or the owner of a lease of the building or of the land and building) of which the demised premises form a part, so that in the event of any sale or sales or conveyance, assignment or transfer of said land and building, or of said lease, or in the event of a lease of said building, or of the land and building, the said Owner shall be, and hereby is, entirely freed and relieved of all covenants and obligations of Owner hereunder, and it shall be deemed and construed without further agreement between the parties or their successors in interest, or between the parties and the purchaser, at any such sale, or the said lessee of the building, or of the land and building, that the purchaser, grantee, assignee or transferee or the lessee of the building has assumed and agreed to carry out any and all covenants and obligations of Owner, hereunder. The words "re-enter" and "re-entry" as used in this lease are not restricted to their technical legal meaning. The term "business days" as used in this lease shall exclude Saturdays, Sundays and all days as observed by the State or Federal Government as legal holidays and those designated as holidays by the applicable building service union employees service contract, or by the applicable Operating Engineers contract with respect to HVAC service. Wherever it is expressly provided in this lease that consent shall not be unreasonably withheld, such consent shall not be unreasonably delayed.

Rider to be added if necessary.

Adjacent Excavation-Shoring: **32.** If an excavation shall be made upon land adjacent to the demised premises, or shall be authorized to be made, Tenant shall afford to the person causing or authorized to cause such excavation, a license to enter upon the demised premises for the purpose of doing such work as said person shall deem necessary to preserve the wall or the building, of which demised premises form a part, from injury or damage, and to support the same by proper foundations, without any claim for damages or indemnity against Owner, or diminution or abatement of rent.

Rules and Regulations: **33.** Tenant and Tenant's servants, employees, agents, visitors, and licensees shall observe faithfully, and comply strictly with, the Rules and Regulations and such other and further reasonable Rules and Regulations as Owner and Owner's agents may from time to time adopt. Notice of any additional Rules or Regulations shall be given in such manner as Owner may elect. In case Tenant disputes the reasonableness of any additional Rules or Regulations hereafter made or adopted by Owner or Owner's agents, the parties hereto agree to submit the question of the reasonableness of such Rules or Regulations for decision to the New York office of the American Arbitration Association, whose determination shall be final and conclusive upon the parties hereto. The right to dispute the reasonableness of any additional Rules or Regulations upon Tenant's part shall be deemed waived unless the same shall be asserted by service of a notice, in writing, upon Owner, within fifteen (15) days after the giving of notice thereof. Nothing in this lease contained shall be construed to impose upon Owner any duty or obligation to enforce the Rules and Regulations or terms, covenants or conditions in any other lease, as against any other tenant, and Owner shall not be liable to Tenant for violation of the same by any other tenant, its servants, employees, agents, visitors or licensees.

Security: **34.** Tenant has deposited with Owner the sum of $ 1,000.00 as security for the faithful performance and observance by Tenant of the terms, provisions and conditions of this lease; it is agreed that in the event Tenant defaults in respect of any of the terms, provisions and conditions of this lease, including, but not limited to, the payment of rent and additional rent, Owner may use, apply or retain the whole or any part of the security so deposited to the extent required for the payment of any rent and additional rent, or any other sum as to which Tenant is in default, or for any sum which Owner may expend or may be required to expend by reason of Tenant's default in respect of any of the terms, covenants and conditions of this lease, including but not limited to, any damages or deficiency in the re-letting of the demised premises, whether such damages or deficiency accrued before or after summary proceedings or other re-entry by Owner. In the case of every such use, application or retention, Tenant shall, within five (5) days after demand, pay to Owner the sum so used, applied or retained which shall be added to the security deposit so that the same shall be replenished to its former amount. In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this lease, the security shall be returned to Tenant after the date fixed as the end of the lease and after delivery of entire possession of the demised premises to Owner. In the event of a sale of the land and building, or leasing of the building, of which the demised premises form a part, Owner shall have the right to transfer the security to the vendee or lessee, and Owner shall thereupon be released by Tenant from all liability for the return of such security; and Tenant agrees to look to the new Owner solely for the return of said security; and it is agreed that the provisions hereof shall apply to every transfer or assignment made of the security to a new Owner. Tenant further covenants that it will not assign or encumber, or attempt to assign or encumber, the monies deposited herein as security, and that neither Owner nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance.

Rider to be added if necessary.

Estoppel Certificate: **35.** Tenant, at any time, and from time to time, upon at least ten (10) days prior notice by Owner, shall execute, acknowledge and deliver to Owner, and/or to any other person, firm or corporation specified by Owner, a statement certifying that this lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications), stating the dates to which the rent and additional rent have been paid, and stating whether or not there exists any default by Owner under this lease, and, if so, specifying each such default and such other information as shall be required of Tenant.

Successors and Assigns: **36.** The covenants, conditions and agreements contained in this lease shall bind and inure to the benefit of Owner and Tenant and their respective heirs, distributees, executors, administrators, successors, and except as otherwise provided in this lease, their assigns. Tenant shall look only to Owner's estate and interest in the land and building, for the satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) against Owner in the event of any default by Owner hereunder, and no other property or assets of such Owner (or any partner, member, officer or director thereof, disclosed or undisclosed), shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under, or with respect to, this lease, the relationship of Owner and Tenant hereunder, or Tenant's use and occupancy of the demised premises.

In Witness Whereof, Owner and Tenant have respectively signed and sealed this lease as of the day and year first above written.

Witness for Owner:

_____

_____

Witness for Tenant:

_____

_____

ACKNOWLEDGEMENT

STATE OF NEW YORK,

SS.:

COUNTY OF

On the _____ day of _____ in the year _____, before me, the undersigned, a Notary Public in and for said State, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____

NOTARY PUBLIC

GUARANTY

FOR VALUE RECEIVED, and in consideration for, and as an inducement to Owner making the within lease with Tenant, the undersigned guarantees to Owner, Owner's successors and assigns, the full performance and observance of all the covenants, conditions and agreements, therein provided to be performed and observed by Tenant, including the "Rules and Regulations" as therein provided, without requiring any notice of non-payment, non-performance, or non-observance, or proof, or notice, or demand, whereby to charge the undersigned therefor, all of which the undersigned hereby expressly waives and expressly agrees that the validity of this agreement and the obligations of the guarantor hereunder shall in no way be terminated, affected or impaired by reason of the assertion by Owner against Tenant of any of the rights or remedies reserved to Owner pursuant to the provisions of the within lease. The undersigned further covenants and agrees that this guaranty shall remain and continue in full force and effect as to any renewal, modification or extension of this lease and during any period when Tenant is occupying the demised premises as a "statutory tenant." As a further inducement to Owner to make this lease, and in consideration thereof, Owner and the undersigned covenant and agree that in any action or proceeding brought by either Owner or the undersigned against the other on any matters whatsoever arising out of, under, or by virtue of, the terms of this lease or of this guaranty, that Owner and the undersigned shall and do hereby waive trial by jury.

Dated . . . . . in the year . . . . .

. . . . . .
Guarantor

. . . . . .
Witness

. . . . . .
Guarantor's Residence

. . . . . .
Business Address

. . . . . .
Firm Name

STATE OF NEW YORK) ss.:

COUNTY OF)

On the day of in the year
before me, the undersigned, a Notary Public in and for said State, personally appeared
personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

. . . . . .
Notary Public

IMPORTANT – PLEASE READ

RULES AND REGULATIONS ATTACHED TO AND MADE A PART OF THIS LEASE IN ACCORDANCE WITH ARTICLE 33.

1. The sidewalks, entrances, driveways, passages, courts, elevators, vestibules, stairways, corridors or halls shall not be obstructed or encumbered by Tenant or used for any purpose other than for ingress or egress from the demised premises, and for delivery of merchandise and equipment in a prompt and efficient manner using elevators and passageways designated for such delivery by Owner. There shall not be used in any space, or in the public hall of the building, either by any tenant or by jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and safeguards. If said premises are situated on the ground floor of the building, Tenant thereof shall further, at Tenant's expense, keep the sidewalk and curb in front of said premises clean and free from ice, snow, dirt and rubbish.
2. The water and wash closets and plumbing fixtures shall not be used for any purposes other than those for which they were designed or constructed, and no sweepings, rubbish, rags, acids or other substances shall be deposited therein, and the expense of any breakage, stoppage, or damage resulting from the violation of this rule shall be borne by the Tenant, whether or not caused by the Tenant, or its clerks, agents, employees or visitors.
3. No carpet, rug or other article shall be hung or shaken out of any window of the building and Tenant shall not sweep or throw, or permit to be swept or thrown, from the demised premises any dirt or other substances into any of the corridors or halls, elevators, or out of the doors or windows or stairways of the building, and Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in the demised premises, or permit or suffer the demised premises to be occupied or used in a manner offensive or objectionable to Owner or other occupants of the building by reason of noise, odors, and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any bicycles, vehicles, animals, fish, or birds be kept in or about the building. Smoking or carrying lighted cigars or cigarettes in the elevators of the building is prohibited.
4. No awnings or other projections shall be attached to the outside walls of the building without the prior written consent of Owner.
5. No sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by Tenant on any part of the outside of the demised premises or the building, or on the inside of the demised premise if the same is visible from the outside of the demised premises, without the prior written consent of Owner, except that the name of Tenant may appear on the entrance door of the demised premises. In the event of the violation of the foregoing by Tenant, Owner may remove same without any liability and may charge the expense incurred by such removal to Tenant. Interior signs on door and directory tablet shall be inscribed, painted or affixed for Tenant by Owner at the expense of Tenant, and shall be of a size, color and style acceptable to Owner.
6. Tenant shall not mark, paint, drill into, or in any way deface, any part of the demised premises or the building of which they form a part. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Owner, and as Owner may direct. Tenant shall not lay linoleum, or other similar floor covering, so that the same shall come in direct contact with the floor of the demised premises, and, if linoleum or other similar floor covering is desired to be used, an interlining of builder's deadening felt shall be first affixed to the floor, by paste or other material, soluble in water, the use of cement or other similar adhesive material being expressly prohibited.
7. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by Tenant, nor shall any changes be made in existing locks or mechanism thereof. Tenant must, upon the termination of his tenancy, restore to Owner all keys of stores, offices and toilet rooms, either furnished to, or otherwise procured by, Tenant, and in the event of the loss of any keys so furnished, Tenant shall pay to Owner the cost thereof.
8. Freight, furniture, business equipment, merchandise and bulky matter of any description shall be delivered to and removed from the demised premises only on the freight elevators and through the service entrances and corridors, and only during hours and in a manner approved by Owner. Owner reserves the right to inspect all freight to be brought into the building and to exclude from the building all freight which violates any of these Rules and Regulations of the lease, or which these Rules and Regulations are a part.
9. Canvassing, soliciting and peddling in the building is prohibited and Tenant shall cooperate to prevent the same.
10. Owner reserves the right to exclude from the building all persons who do not present a pass to the building signed by Owner. Owner will furnish passes to persons for whom Tenant requests same in writing. Tenant shall be responsible for all persons for whom he requests such pass, and shall be liable to Owner for all acts of such persons. Tenant shall not have a claim against Owner by reason of Owner excluding from the building any person who does not present such pass.
11. Owner shall have the right to prohibit any advertising by Tenant which in Owner's opinion, tends to impair the reputation of the building or its desirability as a building for offices, and upon written notice from Owner, Tenant shall refrain from or discontinue such advertising.
12. Tenant shall not bring or permit to be brought or kept in or on the demised premises, any inflammable, combustible, explosive, or hazardous fluid, material, chemical or substance, or cause or permit any odors of cooking or other processes, or any unusual or other objectionable odors, to permeate in, or emanate from, the demised premises.
13. If the building contains central air conditioning and ventilation, Tenant agrees to keep all windows closed at all times and to abide by all rules and regulations issued by Owner with respect to such services. If Tenant requires air conditioning or ventilation after the usual hours, Tenant shall give notice in writing to the building superintendent prior to 3:00 p.m. in the case of services required on weekdays, and prior to 3:00 p.m. on the day prior in case of after hours service required on weekends or on holidays. Tenant shall cooperate with Owner in obtaining maximum effectiveness of the cooling system by lowering and closing venetian blinds and/or drapes and curtains when the sun's rays fall directly on the windows of the demised premises.
14. Tenant shall not move any safe, heavy machinery, heavy equipment, bulky matter, or fixtures into or out of the building without Owner's prior written consent. If such safe, machinery, equipment, bulky matter or fixtures requires special handling, all work in connection therewith shall comply with the Administrative Code of the City of New York and all other laws and regulations applicable thereto, and shall be done during such hours as Owner may designate.
15. Refuse and Trash. (1) Compliance by Tenant. Tenant covenants and agrees, at its sole cost and expense, to comply with all present and future laws, orders, and regulations, of all state, federal, municipal, and local governments, departments, commissions and boards regarding the collection, sorting, separation and recycling of waste products, garbage, refuse and trash. Tenant shall sort and separate such waste products, garbage, refuse and trash into such categories as provided by law. Each separately sorted category of waste products, garbage, refuse and trash shall be placed in separate receptacles reasonably approved by Owner. Such separate receptacles may, at Owner's option, be removed from the demised premises in accordance with a collection schedule prescribed by law. Tenant shall remove, or cause to be removed by a contractor acceptable to Owner, at Owner's sole discretion, such items as Owner may expressly designate. (2) Owner's Rights in Event of Noncompliance. Owner has the option to refuse to collect or accept from Tenant waste products, garbage, refuse or trash (a) that is not separated and sorted as required by law or (b) which consists of such items as Owner may expressly designate for Tenant's removal, and to require Tenant to arrange for such collection at Tenant's sole cost and expense, utilizing a contractor satisfactory to Owner. Tenant shall pay all costs, expenses, fines, penalties, or damages that may be imposed on Owner or Tenant by reason of Tenant's failure to comply with the provisions of this Building Rule 15, and, at Tenant's sole cost and expense, shall indemnify, defend and hold Owner harmless (including reasonable legal fees and expenses) from and against any actions, claims and suits arising from such noncompliance, utilizing counsel reasonably satisfactory to Owner.

Address 164 W 25TH STREET

Premises 6TH FLOOR LOFT 6F

TO
CODA OCTOPUS GROUP INC

STANDARD FORM OF
Office Lease

Dated 1st June **in the year** 2007

Rent Per Year $30,000.00 annually

Rent Per Month $2,500.00

Term 1st June 2007
From
To 30th November 2007

Drawn by .....

Checked by .....

Entered by.....

Approved by .....

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO: Coda Octopus Group, Inc.

A s registered independent certified public accountants, we hereby consent to the inclusion in the Form SB-2 Registration Statement of our report , dated March 13, 2007, relating to the consolidated financial statements of Coda Octopus Group, Inc. and to the reference to our Firm under the caption "Experts" appearing in the Prospectus.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
Russell Bedford Stefanou Mirchandani LLP

New York, New York
May 21, 2007

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO: Coda Octopus Group, Inc.

As registered independent certified public accountants, we hereby consent to the inclusion in the Form SB-2 Registration Statement of our report , dated April 23, 2007, relating to the financial statements of Miller & Hilton, Inc. and to the reference to our Firm under the caption "Experts" appearing in the Prospectus.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
Russell Bedford Stefanou Mirchandani LLP

New York, New York
May 21, 2007

COYNE, BUTTERWORTH & CHALMERS
CHARTERED ACCOUNTANTS

WHEN CALLING PLEASE ASK FOR:-
Mr Tate

LUPINS BUSINESS CENTRE
1-3 GREENHILL
WEYMOUTH
DORSET DT4 7SP

Tel: 01305 772458
Fax: 01305 779956
Email: wey@c-b-c.co.uk

Also at Dorchester 01305 263000

Weekdays 9am – 5pm

Geoff Turner
Coda Octopus Inc
164 West 25th Street
New York
NY 10001
USA

Our Reference:- 3347/JT/JT

15 May 2007

Dear Mr Turner

Martech Systems (Weymouth) Limited

As independent chartered accountants, we hereby consent to the incorporation by reference in this Form SB-2 Registration Statement, of our report dated March 30, 2006, relating to the financial statements of Martech Systems (Weymouth) Ltd. and to the reference to our Firm under the caption "Experts" appearing in the Prospectus.

Yours Sincerely

Coyne Butterworth & Chalmers