SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

Commission File Number 000-52815

CODA OCTOPUS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	34-200-8348 (I.R.S. Employer Identification Number)
164 West, 25th Street, 6th Floor, New York (Address of principal executive offices)	10001 (Zip Code)
Registrant's telephone number, including area code:	(212) 924-3442

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one): ☐

Large accelerated filer ☐ Accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

The number of shares outstanding of issuer's common stock, $0.001 par value as of March 20, 2009: 49,000,244.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
JANUARY 31, 2009 (UNAUDITED) AND OCTOBER 31, 2008

	January 31, 2009 (Unaudited)	October 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,419,477	$ 3,896,149
Restricted cash, Note 2	-	1,017,007
Short-term investments, Note 4	127,500	153,000
Accounts receivable, net of allowance for doubtful accounts	2,170,698	2,589,174
Inventory	2,634,562	2,317,322
Due from related parties, Note 13	11,161	54,166
Unbilled receivables, Note 3	914,794	518,326
Other current assets, Note 5	315,349	407,080
Prepaid expenses	364,243	385,831
Total current assets	8,957,784	11,338,055
Property and equipment, net, Note 6	409,375	355,909
Deferred financing costs, net of accumulated amortization of $242,128 in 2009 and $181,596 in 2008, Note 12	1,452,765	1,513,297
Goodwill and other intangible assets, net, Note 7	4,351,323	3,832,023
Total assets	$15,171,247	$ 17,039,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 1,185,511	$ 1,159,849
Accrued expenses and other current liabilities	2,401,048	2,347,522
Deferred revenues, Note 3	202,482	268,650
Deferred payment related to acquisitions, Note 14	372,282	-
Accrued dividends on Series A preferred stock	37,670	53,874
Due to related parties, Note 13	1,621	41,904
Loans and notes payable, short term, Note 12	12,477,065	12,358,597
Total current liabilities	16,677,679	16,230,396
Loans and notes payable, long term, Note 12	190,871	162,700
Total liabilities	16,868,550	16,393,096
Deficiency in stockholders' equity, Note 8:		
Preferred stock, $.001 par value; 5,000,000 shares authorized, 6,287 series A issued and outstanding, as of January 31, 2009 and October 31, 2008 respectively	6	6
Common stock, $.001 par value; 150,000,000 shares authorized, 49,000,244 and 48,853,664 shares issued and outstanding as of January 31, 2009 and October 31, 2008 respectively	49,000	48,854
Common stock subscribed	120,000	131,790
Additional paid-in capital	51,641,177	51,433,049
Accumulated other comprehensive loss	(1,707,296)	(1,317,696)
Accumulated deficit	(51,800,190)	(49,649,815)
Total deficiency in stockholders' equity	(1,697,303)	646,188
Total liabilities and deficiency in stockholders' equity	$15,171,247	$ 17,039,284

See accompanying notes to these unaudited condensed consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED JANUARY 31, 2009 and 2008
(UNAUDITED)

	For the three months ended January 31, 2009	For the three months ended January 31, 2008
Net revenue	$ 3,199,106	$ 3,127,231
Cost of revenue	1,442,147	1,642,776
Gross profit	1,756,959	1,484,455
Research and development	603,681	689,193
Selling, general and administrative expenses	2,902,719	3,056,927
Total operating expenses	3,506,400	3,746,120
Operating income (loss)	(1,749,441)	(2,261,665)
Other income (expense)		
Other income	27,640	4,857
Interest expense	(397,424)	(113,971)
Total other income (expense)	(369,784)	(109,114)
Loss before income taxes	(2,119,225)	(2,370,779)
Provision for income taxes	-	-
Net loss	(2,119,225)	(2,370,779)
Preferred Stock Dividends:		
Series A	(31,149)	(46,093)
Net Loss Applicable to Common Shares	$ (2,150,374)	$ (2,416,872)
Loss per share, basic and diluted	(0.04)	(0.05)
Weighted average shares outstanding	48,902,367	48,250,366
Comprehensive loss:		
Net loss	$ (2,119,225)	$ (2,370,779)
Foreign currency translation adjustment	332,900	(117,661)
Unrealized loss on investment	(722,500)	(187,000)
Comprehensive loss	$ (2,508,825)	$ (2,675,440)

See accompanying notes to these unaudited condensed consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JANUARY 31, 2009
(UNAUDITED)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Common Stock Subscribed	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance, October 31, 2008	6,287	$ 6	-	$ -	48,853,664	$ 48,854	131,790	$ 51,433,049	$ (1,317,696)	$ (49,649,815)	$ 646,188
Stock issued for compensation					146,580	147	(11,790)	$ 30,163			$ 18,520
Fair value of options issued for compensation								$ 177,965			$ 177,965
Preferred stock dividends Series A										$ (31,149)	$ (31,149)
Foreign currency translation adjustment									$ 332,900		$ 332,900
Unrealized loss from marketable securities									$ (722,500)		$ (722,500)
Net loss										$ (2,119,225)	($ 2,119,225)
Balance January 31, 2009	6,287	$ 6	-	$ -	49,000,244	$ 49,000	$ 120,000	$ 51,641,177	$ (1,707,296)	$ (51,800,190)	$ (1,697,303)

See accompanying notes to these unaudited condensed consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED JANUARY 31, 2009 and 2008
(UNAUDITED)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,119,225)	$ (2,370,779)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	161,586	97,196
Stock based compensation	196,485	196,189
Financing costs	383,571	-
Dividends	-	46,093
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Release of restricted cash	1,017,007	-
Accounts receivable	520,222	1,588,151
Inventory	(281,987)	188,144
Prepaid expenses	21,586	60,827
Other receivables	(251,692)	(324,943)
Increase (decrease) in:		
Accounts payable and accrued expenses	(446,350)	478,657
Due to related parties	(40,283)	(68,646)
Net cash used in operating activities	(839,080)	(109,110)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36,587)	(29,006)
Acquisition of Tactical Intelligence and Dragon Design Ltd.	(208,495)	-
Cash acquired from acquisitions	877	-
Net cash used in investing activities	(244,205)	(29,006)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments for) loans, net	38,026	(16,949)
Preferred stock dividend paid	(47,354)	(64,491)
Net cash used in financing activities	(9,328)	(81,440)
Effect of exchange rate changes on cash	(384,059)	(165,233)
Net decrease in cash	(1,476,672)	(384,789)
Cash and cash equivalents, beginning of period	3,896,149	916,257
Cash and cash equivalents, end of period	$ 2,419,477	$ 531,468
Cash paid for:		
Interest	$ 13,853	$ 113,971
Income taxes	-	-

Supplemental Disclosures:

During the three months ended January 31, 2009, 146,580 shares of common stock were issued, 43,694 of which were subscribed for in the year ended October 31, 2008, and the other 102,886 shares were issued as payment of $18,520 of compensation.

During the three months ended January 31, 2008, 5,000 shares of common stock were issued as payment of $3,250 of compensation that was earned. In addition, 28,288 shares were issued as dividends on series A preferred stock.

Acquisition of Tactical Intelligence

Equipment, net	$ 5,000
Customer relationships acquired	60,000
Non-compete agreements acquired	50,000
Goodwill	135,000
Deferred payments	(125,000)
Cash paid for acquisition	$ 125,000

Acquisition of Dragon Design Ltd

Current assets acquired	$ 147,039
Equipment, net	51,336
Current liabilities assumed	(201,166)
Customer relationships acquired	29,740
Non-compete agreements acquired	29,740
Goodwill	276,414
Cash acquired	877
Deferred payments	(250,485)
Cash paid for acquisition	$ 83,495

See accompanying notes to these unaudited condensed consolidated financial statements.

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

General

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with instructions to SEC form 10Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three month period ended January 31, 2009, are not necessarily indicative of the results that may be expected for the year ended October 31, 2009. The unaudited condensed financial statements should be read in conjunction with the consolidated October 31, 2008 financial statements and footnotes thereto included in the Company's 10K filed on March 18, 2009 with the Securities Exchange Commission (SEC).

Business and Basis of Presentation

Coda Octopus Group, Inc. (*"we*", *"us",* "*our company*" or *"Coda"*), a corporation formed under the laws of the State of Florida in 1992 (since re-domiciled to Delaware in 2004). 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 Utah, the United Kingdom and Norway, and additional sales locations in Florida and Washington, D.C.

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

Use of Estimates

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

Revenue Recognition

We record revenue in accordance with the guidance of the SEC's *Staff Accounting Bulletin SAB No. 104* (SAB 104), which supersedes SAB No. 101 in order to encompass Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Our revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications, as well as from the performance of various engineering and manufacturing contracts. 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 collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

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

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

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

Foreign Currency Translation

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

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, and for operating loss and tax credit 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.

Cash and Cash Equivalents

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

Concentrations of Credit Risk

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

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was nil for the period ended January 31, 2009 and $74,897 for the year ended October 31, 2008.

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.

Fair Values

In the first quarter of fiscal year 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157) as amended by FASB Statement of Position (FSP) FAS 157-1 and FSP FAS 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. FSP FAS 157-2 delays, until the first quarter of fiscal year 2009, the effective date for SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material impact on the Company's financial position or operations. Refer to Note 4 for further discussion regarding fair value.

Debt and Equity Securities

The Company follows the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. Securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

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, 2009 and October 31, 2008:

	2009	2008
Raw materials	$ 2,012,981	$ 1,917,566
Work in process	321,436	113,942
Finished goods	300,145	285,814
Total inventory	$ 2,634,562	$ 2,317,322

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 period ended January 31, 2009 or the year ended October 31, 2008.

Research and Development

Research and development costs consist of expenditures for the present and future patents and technology, which cannot be capitalized. We are eligible for United Kingdom tax credits related to our qualified research and development expenditures. Tax credits are classified as a reduction of research and development expense. We recorded no tax credits during the period ended January 31, 2009 or the year ended October 31, 2008.

Marketing

We charge the costs of marketing to expense as incurred. For the period ended January 31, 2009 marketing costs were $274,132 and $1,237,175 for the year ended October 31, 2008.

Intangible Assets

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Customer relationships, non-compete agreements and licenses are being amortized on a straight-line basis over periods of 2 to 10 years. The Company amortizes its intangible assets using the straight-line method over their estimated period of benefit. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

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

Stock Based Compensation

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

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

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

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

Comprehensive Income

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

Deferred Financing Costs

Deferred financing costs primarily include debt issuance costs incurred by the Company in connection with the issuance of convertible debt in February 2008 (see Note 12). Amortization is provided on a straight-line basis over the terms of the respective debt instruments to which the costs relate and is included in interest expense. Deferred financing cost expense was $60,532 and $181,596 in the period ended January 31, 2009 and the year ended October 31, 2008, respectively.

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 $0.04 and $0.05 for the periods ended January 31, 2009 and 2008, respectively. For the periods ended January 31, 2009 and 2008, 46,203,559 and 37,834,628 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities” applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, “Fair Value Measurements”. The adoption of SFAS No. 159 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The company has adopted SFAS No. 141(R) for its acquisition in the current quarter.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51” (“SFAS No. 160”), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its consolidated financial position, results of operations or cash flows.

In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2010, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting EITF 07-1 on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB" issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161, if any, will have on its consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The Company is required to adopt FSP 142-3 on September 1, 2009, earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the impact of FSP 142-3 on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material effect on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FASB Statement No. 163, "Accounting for Financial Guarantee Insurance Contracts ", which clarifies how FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises", applies to financial guarantee insurance contracts issued by insurance enterprises. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, including interim periods in that year. The Company does not expect the adoption of SFAS 163 to have a material effect on its consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company is currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on its consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company does not expect the adoption of FSP EITF No. 03-6-1 to have a material effect on its consolidated financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future condensed consolidated financial statements.

Liquidity

As of January 31, 2009 we have cash and cash equivalents of $2,419,477 a working capital deficit of $7,719,895 and a deficiency in stockholders' equity of $1,697,303. For the period ended January 31, 2009, we had a net loss of $2,119,225 and negative cash flow from operations of $839,080. We also have an accumulated deficit of $51,800,190 at January 31, 2009 (see Note 16).

NOTE 2 – RESTRICTED CASH

Under terms of the Company's secured convertible debenture dated February 26, 2008, we maintained a $1,000,000 interest-bearing deposit in a restricted bank account until such time as advances under an accounts receivable factoring agreement were repaid in full and the agreement and related liens were terminated. As of October 31, 2008, the Company had $1,017,007 in the restricted cash account, which was released to the Company in December 2008 after the factoring agreement was terminated and settled in full in October 2008 and the debenture holders perfected their security in December 2008.

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 $914,794 and $518,326 as of January 31, 2009 and October 31, 2008 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 $25,122 and $57,513 as of January 31, 2009 and October 31, 2008 respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of $177,360 and $211,137 as of January 31, 2009 and October 31, 2008 respectively.

NOTE 4 - INVESTMENTS

SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. SFAS No. 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

Items recorded or measured at fair value on a recurring basis in the accompanying financial statements consisted of the following items as of January 31, 2009:

	Total	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Short term Investment	$ 127,500	$ 127,500		
Total	$ 127,500	$ 127,500	$ -	-

With the exception of assets and liabilities included within the scope of FSP FAS No. 157-2, the Company adopted the provisions of SFAS No. 157 prospectively effective as of the beginning of the year ended October 31, 2008. For financial assets and liabilities included within the scope of FSP FAS No. 157-2, the Company will be required to adopt the provisions of SFAS No. 157 prospectively as of the year beginning October 31, 2009. The adoption of SFAS No. 157 did not have a material impact on our financial position or results of operations, and the Company do not believe that the adoption of FSP FAS No. 157-2 will have a material impact on our financial position or results of operations.

The fair value of the assets, short term investments, at January 31, 2009 was grouped as Level 1 valuation as the market price was readily available, and there has been no change to the fair value of the securities at January 31, 2009.

During the year ended October 31, 2007, the Company received marketable securities in settlement of $533,147 loan and $316,853 of accounts receivable. As of October 31, 2008, the Company had an investment of $153,000 that was considered available-for-sale for financial reporting purposes which included an unrealized loss of $697,000 included in the determination of comprehensive loss. As of January 31, 2009, this investment had a value of $127,500, with an unrealized loss of $722,500 included in the determination of comprehensive loss.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total $315,349 and $407,080 at January 31, 2009 and October 31, 2008 respectively. These totals comprise the following:

	2009	2008
Deposits	$ 83,761	$ 110,548
Value added tax (VAT)	122,571	262,090
Other receivable	109,017	34,442
Total	$ 315,349	$ 407,080

NOTE 6 - FIXED ASSETS

Property and equipment at January 31, 2009 and October 31, 2008 is summarized as follows:

	2009	2008
Machinery and equipment	$ 1,169,873	$ 1,076,950
Accumulated depreciation	(760,498)	(721,041)
Net property and equipment assets	$ 409,375	$ 355,909

Depreciation expense recorded in the statement of operations for the period ended January 31, 2009 and year ended October 31, 2008 is $39,463 and $176,147, respectively.

NOTE 7 - INTANGIBLE ASSETS AND GOODWILL

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

The identifiable intangible assets acquired and their carrying value at January 31, 2009 and October 31, 2008 is:

	2009	2008
Customer relationships (weighted average life of 9.2 years)	$ 784,242	$ 694,503
Non-compete agreements (weighted average life of 2.8 years)	278,650	198,911
Patents (weighted average life of 10 years)	63,695	63,695
Licenses (weighted average life of 2 years)	100,000	100,000
Total amortized identifiable intangible assets - gross carrying value	1,256,327	1,057,109
Less accumulated amortization	(386,252)	(324,661)
Net	**840,336**	**732,448**
Residual value	**$ 840,336**	**$ 732,448**

Our acquisition of Colmek resulted in the valuation of Colmek's customer relationships and covenants not to compete as intangible assets (see Note 14), which have an estimated useful life of 10 years and 3 years respectively, and as such are being amortized on a straight-line basis over their respective periods. In addition, we recognized goodwill of $2,038,669 that represents the excess of the purchase price we paid over the fair value of Colmek's net tangible and intangible assets we acquired.

Our acquisition of Dragon Design Ltd ("Dragon") resulted in the valuation of Dragon's customer relationships and covenants not to compete as intangible assets (see Note 14), which have an estimated useful life of 3 years each, and as such are being amortized on a straight-line basis over that period. In addition, we recognized goodwill of $276,414 that represents the excess of the purchase price we paid over the fair value of Dragon's net tangible and intangible assets we acquired.

Our acquisition of the assets of Tactical Intelligence, LLC. ("Tactical") resulted in the valuation of Tactical's customer relationships and covenants not to compete as intangible assets (see Note 14), which have an estimated useful life of 3 years each, and as such are being amortized monthly over that period. In addition, we recognized goodwill of $135,000 that represents the excess of the purchase price we paid over the fair value of Tactical's net tangible and intangible assets acquired.

Estimated annual amortization expense as of January 31, 2009 is as follows:

2009	$ 160,581
2010	142,720
2011	130,665
2012	75,824
2013 and thereafter	330,546
Total	**$ 840,336**

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to $61,591 and $189,621 for the period ended January 31, 2009 and year ended October 31, 2008, respectively. Goodwill is not being amortized.

As a result of the acquisitions of Martech, Colmek, Dragon and Tactical, the Company has goodwill in the amount of $3,510,989 as of January 31, 2009 and $3,099,575 as of October 31, 2008. The changes in the carrying amount of goodwill for the period ended January 31, 2009 and year ended October 31, 2008 are recorded below.

	2009	**2008**
Beginning goodwill balance at November 1	$ 3,099,575	$ 3,099,575
Goodwill recorded upon acquisition	411,414	-
Balance at January 31, 2009 and October 31, 2008	**$ 3,510,989**	**$ 3,099,575**

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

NOTE 8 - CAPITAL STOCK

The Company is authorized to issue 150,000,000 shares of common stock with a par value of $.001 per share. As of January 31, 2009 and October 31, 2008, the Company has issued and outstanding 49,000,244 shares and 48,853,664 shares of common stock respectively. The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of $.001 per share. We have designated 50,000 preferred shares as Series A preferred stock and 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock is undesignated. There were 6,287 Series A preferred shares outstanding at January 31, 2009 and October 31, 2008 respectively, and nil Series B preferred shares outstanding at the same dates.

Series A Preferred Stock

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

During the year ended October 31, 2008, we issued 200 shares of Series A Preferred Stock, which were subscribed for in March 2007 and converted 320 shares of Series A Preferred Stock into 32,000 shares of common stock. The total of Series A preferred stock outstanding is 6,287 shares at October 31, 2008 and January 31, 2009, convertible into 1,013,670 shares of common stock.

Series B Preferred Stock

We designated 50,000 shares of our preferred stock, par value $.001, as Series B Preferred Stock. The Series B Preferred Stock ranks junior to our issued and outstanding Series A preferred Stock and senior to all classes of common stock. The Series B Preferred Stock has a dividend rate of 8% per year. The Series B Preferred Stock and accrued dividends are convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share. As of October 31, 2008 and January 31, 2009, we have no shares of Series B Preferred Stock outstanding.

Common Stock

During the period ending January 31, 2009 we issued 146,580 shares of common stock, valued at $30,310, to employees, directors and consultants for services, of which $11,790 was subscribed for during the year ending October 31, 2008.

During the years ended October 31, 2008 we issued 452,937 shares of common stock, valued at $263,476, to employees, directors and consultants for services.

During the year ended October 31, 2008 we also issued 38,319 shares as dividends on Series A Preferred Stock valued at $41,537.

During the year ended October 31, 2008, 60,000 shares of common stock were issued to an investor, which were subscribed for during the year to October 31, 2007.

We also issued 38,319 shares of common stock as dividend payments due to holders of Series A Preferred stock, which had accrued over the period August 2006 to April 2008, valued at $41,537. We also issued 60,000 shares to an investor who had subscribed for these shares in February 2007 and 4,200 shares for financing, and 56,640 shares to an investor on conversion of 320 shares of Series A Preferred stock.

Other Equity Transactions

During the period ended January 31, 2009, we did not issue any common share purchase options. However, options issued in earlier periods vested resulting in a charge of $177,965 in this period.

During the year ended October 31, 2008, we issued in the aggregate 1,870,000 common share purchase options to employees and consultants, with exercise prices of $1.30 to $1.50. The initial fair value of the options was $872,170 using the Black-Scholes method at the date of grant of the options based on the following assumptions: (1) risk free interest rate of 3.43%-5.25%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 222% - 246%; and (4) an expected life of the options of 2 years. The fair value of the options has been expensed in this period. In accordance with EITF 96-18, the fair value of consultant vesting options will be recomputed at each reporting period and any increase will be charged to expense. Due to staff departures, 50,000 options were cancelled, all of which had exercise prices of $1.70. During the year ended October 31, 2008, $257,547 was charged to expense.

NOTE 9 - WARRANTS AND STOCK OPTIONS

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

	Three months ended January 31, 2009		Year ended October 31, 2008	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	38,339,318	$ 1.39	36,519,318	$ 1.39
Granted during the period	-	-	1,870,000	1.36
Terminated during the period	-	-	(50,000)	1.70
Outstanding at the end of the period	38,339,318	$ 1.39	38,339,318	$ 1.39
Exercisable at the end of the period	37,256,417	$ 1.39	37,161,417	$ 1.39

The number and weighted average exercise prices of stock purchase options and warrants outstanding as of January 31, 2009 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Vested
0.50	750,000	2.24	750,000
0.58	400,000	2.16	400,000
1.00	5,845,900	2.32	5,789,800
1.30	16,106,709	3.03	15,226,958
1.50	525,000	2.85	500,250
1.70	14,651,709	2.91	14,549,409
1.80	60,000	3.65	40,000
Totals	38,339,318	2.85	37,256,417

NOTE 10 - 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 US unused net operating losses approximate $43,554,000 which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $14,814,000. 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 $7,725,000, with no expiration. The deferred tax asset related to the carry-forward is approximately $2,327,000. 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 2008 represents income taxes on our Norwegian subsidiary.

Components of deferred tax assets as of January 31, 2009 and October 31, 2008 are as follows:

Non-Current	**2009**	**2008**
Net Operating Loss Carry Forward	$ 17,141,000	$ 16,485,000
Valuation Allowance	(17,141,000)	(16,485,000)
Net Deferred Tax Asset	$ -	$ -

NOTE 11 - CONTINGENCIES AND COMMITMENTS

Litigation

The Company is currently engaged in a lawsuit involving the former Chief Executive Officer of its subsidiary, Coda Octopus Colmek, Inc. The former CEO claims breach of his employment contract, tortuous interference with his contract, termination in violation of public policy and failure to pay wages when due. He has filed a complaint on November 10, 2008 and an amended complaint on December 10, 2008. We have answered the amended complaint on December 22, 2008 denying the allegations, raising affirmative defenses and intend to defend ourselves vigorously. We believe that the final disposition should not have a material adverse effect on our financial position or results of operations.

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

Factoring Agreement

Until October 31, 2008, we factored certain of our receivables pursuant to a number of factoring agreements with Faunus Group International ("FGI"). Advances received pursuant to the agreement are secured by our accounts receivable and other assets of the Company.

An initial factoring agreement was entered into on August 17, 2005 between FGI and Coda Octopus Group, Inc., for a maximum borrowing in the US of up to $1 million. Subsequent agreements were added in November 2006 covering our UK businesses, Martech Systems Ltd and Coda Octopus Products Ltd.

Over the course of the year ended October 31, 2008, we factored invoices totaling $7,545,200 in receivables and we received $5,828,550 in proceeds from FGI.

Under the arrangement, FGI typically advanced to the Company 80% of the total amount of accounts receivable factored. FGI retained 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 was 1.85% for the initial 30 day credit period, up to a maximum of 45 days; thereafter, an additional fee of 0.5% was charged for each 10 day period.

As of October 31, 2008 all FGI agreements were terminated and advances repaid in full.

On February 20, 2008, FGI, RBS entered into an intercreditor agreement with the Company, regulating the priority of each creditor's debts.

Operating Leases

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2013. Future minimum lease obligations are approximately $1,191,565, with the minimum future rentals due under these leases as of January 31, 2009 as follows:

2009	$ 380,156
2010	382,979
2011	284,388
2012	97,196
2013 and thereafter	46,847
Total	$ 1,191,565

Concentrations

We had no concentrations of purchases of over 5% during either of the period ended January 31, 2009 and year ended October 31, 2008. We had a sales concentration of over 5% for the year ended October 31, 2008 due to a sale to a customer for $1,557,130.

NOTE 12 - NOTES AND LOANS PAYABLE

A summary of notes payable at January 31, 2009 and October 31, 2008 is as follows:

	January 31, 2009	October 31, 2008
The Company has a secured convertible debenture for $12M with a life of 7 years from February 26, 2008, maturing at 130% of face value, and with interest payable every six months, starting in February 2009, at a rate of 8.5%; During the term, the debentures are convertible into our common stock at the option of the Noteholders at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price. The Company has failed to comply with certain covenants contained in the debenture agreement (see Note 16).	$ 12,477,065	$ 12,348,493
The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note for £100,000; interest rate of 12% annually; repayable at borrower's instigation or convertible into common stock when the share price reaches $3.	142,741	162,700
The Company through its US subsidiary Coda Octopus Colmek, Inc., has an unsecured loan note payable to a director and former officer of the Company, which is being repaid in the short term.	4,104	10,104
The Company through its UK subsidiary, Dragon Design Ltd, has an outstanding loan note payable for £14,000 over 36 months, commencing in November 2007, with monthly payments of £454.42 and an annual interest rate of 14.5%. By the end of January 2009, 23 payments remained on this note.	11,600	-
The Company through its UK subsidiary, Dragon Design Ltd, has an unsecured revolving line of credit with their bank for £40,000, which is repayable on demand. The amount outstanding on this line of credit was reduced to zero after January 31, 2009.	32,426	-
Total	$ 12,677,936	$ 12,521,297
Less: current portion	12,477,065	12,358,597
Total long-term portion	$ 190,871	$ 162,700

In connection with the secured convertible debenture noted above, we carry $1,452,765 deferred financing costs as an asset on the consolidated balance sheet at January 31, 2009, which represents $1,694,893 in financing closing costs we incurred, net of $60,532 in amortization expense for the period ended January 31, 2009 and $181,596 in amortization expense for the year ended October 31, 2008. We amortize deferred financing costs over the debenture's 7-year term using the straight line method.

NOTE 13 - RELATED PARTY TRANSACTIONS

We are indebted to various related parties for advances for payments of operating expenses and dividends. These related parties include our biggest shareholder and other entities controlled by this shareholder. Advances are non interest bearing and are due on demand. At the end of the period ending January 31, 2009, $1,621 was due to related parties, compared with $41,904 for the year ending October 31, 2008.

We are also owed by related parties a sum of $11,161 at January 31, 2009 compared to $54,166 at October 31, 2008.

NOTE 14 - ACQUISITIONS

Acquisition of Colmek Systems Engineering

On April 6, 2007, we completed the acquisition of Miller & Hilton d/b/a Colmek Systems Engineering, a Utah corporation ("Colmek"). The total purchase price was $2,356,750, with additional associated costs and outlays of $158,470, consisting of cash paid at the closing of the transaction in the amount of $800,000 and the issuance of 532,090 shares of our common stock (valued at $792,814), and $700,000 and 42,910 shares that were due on the first anniversary of the closing date through secured promissory notes issued to the former Colmek shareholders - the promissory note allowed for interest on these amounts and the shares due to be converted to cash at the option of the promissory note holder and the amount paid in cash in full settlement of these promissory notes was $763,936. The shares of common stock issued in conjunction with the merger were not registered under the Securities Act of 1933. The acquisition of Colmek was accounted for using the purchase method in accordance with SFAS 141. The results of operations for Colmek have been included in the Consolidated Statements of Operations since the date of acquisition.

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

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

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

Acquisition of Tactical Intelligence

In November 2008, the Company formed a new subsidiary called Coda Octopus Tactical Intelligence, Inc. ("Tactical") to facilitate our entry into the counter-terrorism and anti-piracy training markets, which we believe are integral to our efforts to help major customers deploy real time 3D sonar systems in hot spots around the world. On November 10, 2008, Tactical acquired the assets of Tactical Intelligence International, LLC and Tactical Executive Services, LLC, which consisted of some plant and machinery, valued at $5,000, customer relationships, valued at $60,000, non-compete agreements, valued at $50,000, and goodwill, valued at $135,000.The purchase price consisted of an initial cash outlay of $125,000, with $125,000 due on November 10, 2009 in the form of a convertible promissory note, and 50,000 options to acquire common shares of Coda Octopus Group, Inc., which are due to be issued imminently. As part of the transaction we acquired the services of two specialists in the field of real world security training for domestic and international military units and government agencies to spearhead this drive. These individuals have designed or led more than 50 such training programs throughout the world since September 11, 2001, using up to 100 freelance specialists on a contract basis. The expertise of this part of the Group will be used to leverage our Echoscope and UIS capabilities in sales and training.

The acquisition of Tactical was accounted for using the purchase method in accordance with SFAS 141. The results of operations for Tactical have been included in the Consolidated Statements of Operations since the date of acquisition. In accordance with SFAS No. 141, the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's estimates. The total purchase price was allocated to the assets and liabilities acquired as follows:

Equipment, net	$ 5,000
Customer relationships acquired	60,000
Non-compete agreements acquired	50,000
Goodwill	135,000
Total purchase price	$ 250,000

The intangible assets of $110,000 at the date of acquisition consisted of customer relationships and non-compete agreements. The intangible assets acquired have an estimated useful life of 3 years each and as such will be amortized monthly over those periods. Goodwill of $135,000 represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

Acquisition of Dragon Design Ltd

In December 2008, the Company acquired the assets of Dragon Design Ltd ("Dragon"), an electronics manufacturing and design business based in Weymouth, UK, and situated next to its Martech subsidiary. Management believes the companies have complementary skills and capabilities that can enhance revenues and opportunities for both companies. The purchase price for the assets consisted of an initial cash outlay of £56,250 ($83,000) and a further £56,250 in deferred consideration, payable on the first anniversary of closing. The terms of the acquisition also included a potential earn out payment of £112,500, which is dependent on Dragon meeting future agreed performance criteria, that has also been accrued on the acquisition date.

The acquisition of Dragon was accounted for using the purchase method in accordance with SFAS 141(R). The results of operations for Dragon have been included in the Consolidated Statements of Operations since the date of acquisition. In accordance with SFAS No. 141(R), the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's estimates. The total purchase price was allocated to the assets and liabilities acquired as follows:

Current assets acquired	$ 147,039
Equipment, net	51,336
Current liabilities assumed	(201,166)
Customer relationships acquired	29,740
Non-compete agreements acquired	29,740
Goodwill	276,414
Cash acquired	877
Total purchase price	$ 333,980

The intangible assets of $59,480 at the date of acquisition consisted of customer relationships and non-compete agreements. The intangible assets acquired have an estimated useful life of 3 years each and as such will be amortized monthly over those periods. Goodwill of $276,414 represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

The following unaudited pro forma results of operations for the period ended January 31, 2009 assume that the acquisition of Dragon occurred on November 1, 2008. These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have been achieved nor are they are necessarily indicative of future results of operations.

	2009
Revenue	$ 3,332,753
Net loss	(2,112,758)
Loss per common share	$ (0.04)

NOTE 15 - SEGMENT INFORMATION

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

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

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

There are inter-segment sales between our engineering contracting businesses and our products businesses.

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

	Contracting	Products	Corporate	Totals
Revenues	$ 2,137,244	$ 892,217	$ 169,644	$ 3,199,106
Operating profit/(loss)	207,142	(160,739)	(1,795,844)	(1,749,441)
Identifiable assets	6,801,410	2,618,058	5,751,780	15,171,247
Capital expenditure	305,157	14,275	18,952	338,384
Selling, general & administrative	894,454	504,399	1,503,866	2,902,719
Depreciation & amortization	74,868	15,337	71,380	161,585
Interest expense	3,657	7,095	386,672	397,424

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

* United States
* United Kingdom

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. There are inter-segment sales which have been removed upon consolidation and for the purposes of the information shown below.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the period ended January 31, 2009 and the year ended October 31, 2008:

	2009	2008
Revenues:		
United States	$ 1,380,925	$ 7,362,966
United Kingdom	1,648,536	9,605,956
Corporate and other	169,644	-
Total Revenues	$ 3,199,106	$ 16,968,922
Assets:		
United States	$ 4,868,667	$ 4,357,042
United Kingdom	4,550,800	5,478,233
Corporate and other	5,751,780	7,204,009
Total Assets	$ 15,171,247	$ 17,039,284

NOTE 16 - SUBSEQUENT EVENTS

On February 9, 2009, we were awarded the third TSWG contract, exercising the Automated Change Detection option, with a total value of $1,152,948. This involves developing Automated Change Detection algorithms for on-line detection and post-processing analysis of captured Echoscope™ data. The data post-mission would reside on a large-scale SQL database allowing several over-time analyses to be generated as well as “known-good” baseline surveys for real-time analysis. The algorithm would be backwards compatible with existing UIS™ systems to enable all users to add this additional software capability on a per license basis.

Secured Convertible Debentures

Under the terms of the $12M convertible debenture issued in February 2008 (see Note 12) , the Company agreed to allocate a minimum of $6M of the proceeds for purposes of capital expenditures and acquisitions, with the balance of the proceeds, approximately $6M to be utilized for working capital purposes. If the Company fails to comply with these covenants, the debenture holders would be able to demand payment within a specified period of time.

As of October 31, 2008, the Company exceeded the $6M limit for working capital purposes, and therefore was not in compliance under the terms of the debenture. On March 16, 2009, the Company and the Noteholder have entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes subject to the Noteholder's consent and agreed upon terms and conditions. Under the terms of the agreement, we must also adhere to a strict cost cutting program which involves reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

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

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

General Overview

Coda Octopus develops, manufactures, sells and services real-time 3D and other sonar products, as well as engineering design and manufacturing services on a worldwide basis. Headquartered in New York City, with research and development, sales and manufacturing facilities located in the United Kingdom, United States and Norway, the Company is also engaged in software development, defense contracting and engineering services through subsidiaries located in the United States and the United Kingdom.

Founded in 1994, Coda operated for ten years as a private company based in the UK. By the late 1990s, the Company had developed a strong reputation as a developer and marketer of high quality software-based products used for underwater mapping, geophysical survey and other related marine applications.

Shortly after September 11, 2001, management was introduced to, and in December 2002 completed the acquisition of OmniTech AS, a Norwegian Company that had developed and patented a prototype system called the **Echoscope™**. The Echoscope permits accurate three-dimensional visualization, measurement, data recording and mapping of underwater objects – in effect, the ability to “see” an object underwater in real time.

Management believed that real-time 3D sonar could represent a truly disruptive technology with the potential to change industry standard practices and procedures. It envisioned significant applications for this technology in Defense, Underwater Port Security, Oil and Gas Exploration and Security, Bridge Repair, and large-scale Underwater Construction projects. Given these beliefs, the Company decided that the best way to gain access to the capital and the visibility needed to commercialize real time 3D sonar, and to successfully enter multiple worldwide markets in the post 9/11 environment would be to move its headquarters to New York City, and to become a publicly traded company in the United States.

On July 13, 2004 Coda Octopus became a public company through a reverse merger with The Panda Project, Inc., a publicly traded Florida corporation. As a result of the transaction, Coda and its shareholders, including its controlling shareholder Fairwater Technology Group L td , were issued 20,050,000 common shares comprising approximately 90.9% of the then issued and outstanding shares of Panda. Subsequently, Panda was reincorporated in Delaware, and changed its name to Coda Octopus Group, Inc. By mid 2005, the Company had completed the move of its headquarters from the UK to New York City.

Since moving to New York, the Company has accomplished a series of objectives:

1. It has raised approximately $33 million in funds, through three private placements primarily with institutional investors. The Company raised approximately $8 million in 2006, approximately $13 million in April/May 2007, and approximately $12 million in a convertible debt transaction that was completed in February 2008.

2. It has completed the commercialization of the Echoscope and successfully deployed its real-time 3D technology and products on three continents with major corporations, governments, ports, law enforcement agencies and security organizations.

3. It has significantly broadened both its revenue base and its base of expertise in engineering, defense electronics, military and security training, and software development primarily through the acquisition of four privately held companies. Management believes that broadening the base of the Company in these specific areas was necessary to position Coda Octopus as a reliable and experienced contractor, subcontractor and supplier of 3D sonar products and systems on a worldwide basis.

4. Beginning in July 2007, the US Department of Defense (DoD) Technical Support Working Group (TSWG) funded Coda Octopus to build and deliver next-generation Underwater Inspection Systems ™ (UIS) for the US Coast Guard and other potential users. The program has included money to build and deliver current systems, as well as a roadmap for their future development. During the year ended October 31, 2007, the Company delivered three UIS systems to the US Coast Guard against a purchase order totaling $2.59 million. In FY 2008 the Company was funded for an additional $1.53 million to develop certain mutually agreed technical enhancements to the system. The Company's latest contract with TSWG covers the funding of an additional $1.4 million for additional enhancements and the delivery of additional systems. The Company believes it has successfully completed the key second-stage enhancements sought by the DoD and the Coast Guard. As a result, management believes that the Company is positioned to build and deploy fully integrated systems that meet the highest standards in the world. They enable users to "see" objects that are smaller than a baseball from a distance of more than 100 meters, and to do so in all kinds of ocean or water conditions at virtually any depth. In addition, the Company through its Colmek subsidiary, has more than 20 years of successful experience as contractor with the Department of Defense, and as a subcontractor with various large primes, most particularly Raytheon.

5. The Company has taken advantage of its first mover status in real-time 3D sonar to start to open up several potentially significant vertical markets in the private sector. Thus far, the three areas of focus have been Dredging, Underwater Construction, and Security. In each of these areas, the Company has selected a lead customer and has worked with that customer to develop and deploy a system that management believes will have wide application throughout the segment. In the case of Rotterdam-based Van Oord, the Company was funded to develop a particular application, and in other cases the Company has financed the development internally.

The Company believes that the largest potential markets for real-time 3D sonar are with government authorities both in the US and throughout the world. Here in the US, the Company has deployed systems Jacksonville Sheriff**,** FL, and in Contra Costa County, CA, with immediate interest in at least six additional locations. Overseas the Company has deployed systems in Korea, Japan, the United Kingdom and the Middle East, and has significant opportunities in Germany, Singapore, Malaysia and the Netherlands. Our main challenges are the long lead times in purchasing cycles, the current economic environment, and the initial adoption of new technology, which can take several years to effect.

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

Products and Services

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

· Marine geophysical survey (commercial), which focuses around oil and gas, oceanographic research and exploration, where we market to survey companies, research institutions, salvage companies. This was our original focus, 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 the 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, which is still having some effect on the market even with lower current prices.

· Underwater defense/security, where we market to ports and harbors, state, local and federal government agencies, law enforcement agencies and defense contractors. We have recently completed developing and commenced marketing our Underwater Inspection System (UIS™), the first real-time, high resolution, three-dimensional underwater sonar imaging system, which we believe has particularly important applications in the fields of port security, defense and undersea oil and gas development.

· Underwater construction, where our products are used for real-time monitoring of construction which is conducted subsea, a particularly challenging environment. We have also developed for one of our customers a tailored software application to allow the laying of concrete Accropodes™ for constructing breakwaters. The advantage of our real-time system is in giving visibility where previously divers were used to help with the construction, a dangerous and inefficient process.

· Dredging, where our products are used for pre-dredge survey and in a real-time mode where they monitor the quality and precision of the dredge. The advantage we give is in improving the dredge quality and drastically reducing the time involved – for example, if a re-dredge is required, this can be done immediately from the information we provide, instead of days or weeks later, when a new vessel may even have to be used.

· Other applications, such as shallow water hydrography underwater logging, debris survey and treasure hunting.

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

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

Critical Accounting Policies

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

Below is a discussion of accounting policies that we consider critical to an understanding of our financial condition and operating results and that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 1, "Summary of Significant Accounting Policies" of our Consolidated Financial Statements.

Revenue Recognition

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

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

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

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

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

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

Recoverability of Deferred Costs

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

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

Stock Based Compensation

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

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

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

Income Taxes

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

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

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

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

Results of Operations

Introduction

The quarter ending January 31, 2009 contained two new operations, that of Coda Octopus Tactical Intelligence, Inc and Dragon Design Ltd, both of which were acquired during the quarter. This should be taken into account when comparing the quarter with the period ending January 31, 2008.

Comparison of Three Months Ended January 31, 2009 ("2009 Period") to Three Months Ended January 31, 2008 ("2008 Period")

Revenues. Total revenues for the 2009 period and the 2008 period were $3,199,106 and $3,127,231 respectively. This represented an increase of $71,875 or 2.3%. Of the 2009 period amount, $281,045, or 8.8%, were generated by the new operations. Our UK revenues were strongly affected by the change in exchange rates between the two periods, moving from $1.94 to £1 last year to $1.49 to £1 this year, reducing our revenues in the 2009 period by $504,000 on a like for like basis. Given this, our growth, without acquisitions, would have been around 10% from the 2008 period to the 2009 period, a satisfactory performance given the current economic climate. While our products division business is suffering from the reduced oil price, and we saw no significant product sales in the 2009 period, product sales were satisfactory for the time of year. Our engineering businesses, both under new management in the past 12 months, performed significantly better than last year generating 67% of the 2009 period revenues in total. In addition to better management, this reflects an increased demand for outsourcing as companies downsize their own in-house operations.

Margins. Gross margins were 54.9% in the 2009 period compared with 47.5% for the 2008 period. Given the great proportion of engineering revenues in our overall revenue mix, this shows a great improvement in engineering margins, which we target between 45%-50%. It also reflects the relatively low level of product sales, with the mix of products also tending to be more hardware than software based. Lastly, the increase in margins is due to reduced materials costs due to the change in exchange rate over the year and the fact that the majority of our manufacturing is still carried out overseas, The lack of Echoscope™ sales results in our margins being below our targeted 60%. We feel overall margins for this year will be over 60%.

Research and Development (R&D). R&D costs decreased 12.4% to $603,681 in the 2009 period from $689,193 in 2008. This reflects the drop in exchange rates between the 2009 and 2008 periods, which, while reducing revenues also reduces costs. Our R&D in the quarter was focused on further development of the Echoscope™ and UIS™ tied to the TSWG (US Coast Guard) contract, the second stage of which finished in January. Additionally, work continued on productizing different Echoscope™ products, including applications for dredging, underwater construction and security.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2009 period decreased to $2,902,719 from $3,080,958 in 2008, or by 5.8%. Removing non-cash charges attributable to stock and option compensation, depreciation and amortization, and exchange rate movements of $377,718 for 2009 and $327,590 for 2008 bring these totals to $2,525,001 and $2,753,368 respectively, or a drop of 8.3% year on year. This is partly due to the drop in exchange rate and also attributable to cost reduction measures the Company has introduced, which will have a larger impact as the year continues.

Key areas of expenditures include wages and salaries where the company spent $1,900,261 in 2009 while the 2008 period was $1,556,305; legal and professional fees, including accounting, audit and investment banking services, decreased to $272,186 in 2009 from $445,556 in 2008; travel decreased to $127,751 from $154,604; rent increased to $155,139 in 2009, from $126,449; and marketing increased to $274,132 from $214,894 in 2008, mainly due to reclassification of consultants.

Operating Income/Loss. Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for the period, without non-cash charges for stock and options and exchange rate movements, were a loss of $1,344,083 in 2009 against $1,953,249 for the 2008 Period, an improvement of 31.2%. The Company produced an operating loss for the period of $1,749,441 (which, when adjusted for non-cash charges, becomes $1,371,723) against a loss of $2,285,696 in 2008.

Interest Expense. Interest expense for the 2009 period was $397,424, of which $128,571 was a non-cash charge relating to the terminal conversion of the debenture, and $255,000 was accrued interest, due for payment in February 2009. Cash interest charges were $13,853, against costs for 2008 of $113,971, all of which were cash charges.

Preferred Dividends. During the 2009 period there was a $31,149 dividend paid on the remaining series A preferred stock versus $46,093 in 2008

Liquidity and Capital Resources

As of January 31, 2009 the Company had negative working capital of $7,552,905 and cash totaling $2,419,477.

The net loss of $2,119,225 generated a cash flow deficit from operations of $839,080 in the 2009 Period, compared to a deficit of $170,754 in 2008. During the 2009 Period, we also invested around $244,000 in assets for use within our various businesses and the completion of two small acquisitions (see note 14 to the financial statements). In the 2009 period, there was a hit to our cash through exchange rate movements which contributed a cash outflow of $385,000, giving an overall cash decrease of around $1,475,000 for the period.

Under the terms of the $12M convertible debenture issued in February 2008 (see Note 12) , the Company agreed to allocate a minimum of $6M of the proceeds for purposes of capital expenditures and acquisitions, with the balance of the proceeds, approximately $6M to be utilized for working capital purposes. If the Company fails to comply with these covenants, the debenture holders would be able to demand payment within a specified period of time.

As of October 31, 2008, the Company exceeded the $6M limit for working capital purposes, and therefore was not in compliance under the terms of the debenture. On March 16, 2009, the Company and the Noteholder have entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes subject to the Noteholder's consent and agreed upon terms and conditions. Under the terms of the agreement, we must also adhere to a strict cost cutting program which involves reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million.

Our plan to move from loss to profit is based upon intensifying our focus on Echoscope™ applications generally, as well as reducing costs considerably from last year’s total. In the short term, our plan involves, specifically:

- Continuing to sell our current range of products into a mixture of commercial, defense and security markets, increasing sales of these products over the course of this financial year - we have seen strong growth recently.

- Continuing to develop and sell complete turnkey systems based around our leading Echoscope™ 3-D technology, to open markets in law enforcement and inspection - a great deal of our R&D expenditure has been directed towards refining our product with a view to completing sales this year that are currently in our pipeline.

- Continuing to deliver to the Coast Guard on the next stage contract, which we were awarded in February. Work on stage 3 has already begun in the second quarter of this year and continues until at least the end of the financial year.

- Delivering on our first port security solution contract through the provision of our unique 3-D technology and other products and services, enabling us to provide complete solutions.

- Leveraging our subsidiaries to take advantage of our lead in underwater sonar technology by cross marketing all group products and services from each company.

- Continuing to review and refocus our cost base where necessary to achieve a cost level commensurate with our current level of activity.

Through these measures, we aim to move from cash negative for last year and the first quarter of this year to cash positive. We also aim to move from heavily loss-making for the past 2 years to profitable for the coming year, prior to any non-cash charges made to our income statement. Although we intend to pursue our plans aggressively as set forth in the previous paragraph, there can be no assurance that we will be successful in our attempt to make the company profitable in the near future, or ever.

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 and the US operations, Pounds Sterling for UK operations and Norwegian Kroner for Norwegian operations.

The Company's operations are split between the United States and United Kingdom through its wholly-owned subsidiaries, with a significant proportion of revenues and costs incurred outside of the US. 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.

Financing Activities

Equity Offerings

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

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

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

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

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

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

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

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

Secured Convertible Debentures

On February 21, 2008 we entered into and completed the transactions contemplated under a series of agreements providing for the issuance to a London based institutional investor, The Royal Bank of Scotland plc of senior secured convertible notes in the principal amount of $12,000,000 (the “Notes”). The Notes are secured by all of the assets of the Company and its subsidiaries and mature 84 months after the date of issuance at which time they are redeemable at 130% of the face amount of the Notes. The Notes accrue interest at the annual rate of 8.5% which is payable in semi-annually in arrears. The Notes also stipulate additional interest payments of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time, in the event that the semi-annual interest payments are not paid by us on the due dates. All of these amounts are payable by us in cash. Of the proceeds, $6,000,000 constituted a specific purpose loan and in the event that we failed to use the proceeds as agreed within 12 months from the closing, then, unless alternative investments were approved by the holders of the Notes, this $6,000,000 was repayable in February 2009.. In such case there will be a partial redemption of 60 of the notes (having an aggregate nominal value of $6 million). Pursuant to the terms of the agreement, a further $1 million of the proceeds has been retained by RBS to secure the performance of certain contractual obligations of the Company. Upon performance of these by us, this will be released. We expect such release to occur no later than February 2009. During the period from February 2008 to December 2008 in which this $1million was retained we earned approximately interest on this restricted cash balance based on RBS’s internal overnight funds rate. During the term, the Notes are convertible into our common stock at the option of the Noteholders at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price.

In August 2008, we notified the Noteholder that we believed that we would be unable to use the $6,000,000 in the manner agreed to under the terms of the Notes. In response, the Noteholder orally consented to the use of an additional $2 million of the $6,000,000 for general working capital purpose. In January 2009, we notified the Noteholder that the balance of the $6,000,000 had fallen below $4 million. On March 16, 2009, the Company and the Noteholder have entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provides, among other things, for the placement of approximately $2.15 million into a segregated cash account. Under the terms of the agreement, we may request the release of funds from the account from time to time for working capital purposes, subject to the Noteholder’s consent and agreed upon terms and conditions. Under the terms of the agreement, we must also adhere to a strict cost cutting program which involves reducing our SG&A, R&D and capital expenditure by an annualized $3.35 million. We believe that the terms of this agreement will provide us with sufficient liquidity to operate for fiscal 2009.

By adjusting our operations and development to the level of capitalization, we believe we have sufficient capital resources to meet projected cash flow deficits. However, if during fiscal 2009 or thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations liquidity and financial condition.

Other than disclosed herein, we presently do not have any available credit, bank financing or other external sources of liquidity. Due to our brief history and historical operating losses, our operations have not been a source of liquidity. We will need to obtain additional capital in order to expand operations and become profitable. In order to obtain capital, we may need to sell additional shares of our common stock or borrow funds from private lenders. There can be no assurance that we will be successful in obtaining additional funding.

Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, or other financing mechanisms. However, the trading price of our common stock and the downturn in the U.S. stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Off-Balance Sheet Arrangements

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

Item 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company’s management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of October 31, 2008. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were ineffective as of the end of the period covered by this report.

We are in the process of putting improved procedures in place to remedy the various shortcomings in the Company’s disclosure controls and procedures.

(b) Changes in Internal Controls.

There was no change in our internal controls over financial reporting that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting during the quarter covered by this Report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as described below, we are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

We are currently engaged in a lawsuit involving the former Chief Executive Officer of our subsidiary, Coda Octopus Colmek, Inc. (Scott DeBo v Miller & Hilton, Inc. d/b/a Colmek Systems Engineering and Coda Octopus Group, Inc. File No. 080923661). Mr DeBo claims breach of his employment contract, tortuous interference with his contract, termination in violation of public policy and failure to pay wages when due. He filed a complaint and an amended complaint on November 10, 2008 and December 10, 2008, respectively. We answered the amended complaint denying Mr. DeBo's allegations, raising affirmative defenses on December 22, 2008 and intend to defend ourselves vigorously.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits

10.27 Cash Control Framework Agreement dated March 16, 2009 by and between the Company, The Royal Bank of Scotland and Greenhouse Investment Limited*

31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

· Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended October 31, 2008, filed March 18, 2009.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Coda Octopus Group, Inc.
(Registrant)

Date: March 23, 2009

/s/ Jason Reid
Jason Reid
President and Chief Executive Officer

Date: March 23, 2009

/s/ Jody E. Frank
Jody Frank
Chief Financial Officer

Exhibit 31

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Jason Reid, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coda Octopus Group, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information: and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2009

/s/ Jason Reid
Jason Reid
President and Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Jody Frank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Coda Octopus Group, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information: and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2009

/s/ Jody E. Frank
Jody E. Frank
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Coda Octopus Group, Inc. (the "Company") on Form 10-Q for the quarter ended January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jason Reid, President and Chief Executive Officer, and Jody Frank, Chief Financial Officer, certify. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) This report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason Reid	/s/ Jody E. Frank
Jason Reid	Jody E. Frank
President and Chief Executive Officer	Chief Financial Officer
Date: March 23, 2009	Date: March 23, 2009