

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 April 30, 2010

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)

Newport Office Center 1, 111 Town Square Place, Jersey City,
Suite 1201, New Jersey 07301

(Address of principal executive offices)

07301

(Zip Code)

Registrant's telephone number, including area code:

(201) 420 9100

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 ☐ Non-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 June 14, 2010 is 49,075,244.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
April 30, 2010 (UNAUDITED) and OCTOBER 31, 2009

	April 30, 2010	October 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,322	\$ 275,885
Restricted cash, Note 2	551,480	994,081
Short-Term Investments, Note 4	38,250	51,000
Accounts receivable, net of allowance for doubtful accounts	1,715,829	2,033,879
Inventory	1,824,788	2,798,425
Unbilled receivables, Note 3	2,465,067	690,344
Other current assets, Note 5	202,240	285,691
Prepaid expenses	260,626	247,134
Total current assets	7,142,602	7,376,439
Property and equipment, net, Note 6	161,166	267,964
Deferred financing costs, net of accumulated amortization of \$544,787 in 2010 and \$423,723 in 2009, Note 13	1,150,106	1,271,170
Goodwill and other intangible assets, net, Note 7	4,150,359	4,221,807
Total assets	<u>\$ 12,604,233</u>	<u>\$ 13,137,380</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 2,081,759	\$ 2,390,039
Accrued expenses and other current liabilities	4,543,225	4,626,164
Warrant liability, Note 10	5,987,321	-
Deferred revenues, Note 3	1,168,419	398,482
Deferred payment related to acquisitions	383,022	404,274
Total current liabilities	14,163,746	7,818,959
Loans and notes payable, long term, Note 13	13,733,065	13,233,523
Total liabilities	<u>27,896,811</u>	<u>21,052,482</u>
Contingencies and Commitments, Note 12		
Stockholders' deficiency:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of April 30, 2010 and October 31, 2009, respectively	6	6
Nil shares Series B issued and outstanding as of April 30, 2010 and October 31, 2009, respectively	-	-
Common stock, \$.001 par value; 150,000,000 shares authorized, 49,075,244 and 49,000,244 shares issued and outstanding as of April 30, 2010 and October 31, 2009, respectively	49,075	49,000
Common Stock subscribed	96,350	96,350
Additional paid-in capital	46,860,154	51,766,495
Accumulated other comprehensive loss	(903,823)	(696,617)
Accumulated deficit	<u>(61,394,340)</u>	<u>(59,130,336)</u>
Total stockholders' deficiency	<u>(15,292,578)</u>	<u>(7,915,102)</u>
Total liabilities and stockholders' deficit	<u>\$ 12,604,233</u>	<u>\$ 13,137,380</u>

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED April 30, 2010 and 2009
(UNAUDITED)

	For the three months ended April 30, 2010	For the three months ended April 30, 2009	For the six months ended April 30, 2010	For the six months ended April 30, 2009
Net revenue	\$ 3,713,585	\$ 4,307,447	\$ 6,781,795	\$ 7,506,553
Cost of revenue	<u>1,422,884</u>	<u>1,575,788</u>	<u>2,728,863</u>	<u>3,017,935</u>
Gross profit	2,290,701	2,731,659	4,052,932	4,488,618
Research and development	455,173	456,477	932,186	1,060,158
Selling, general and administrative expenses	1,848,938	2,386,460	3,484,364	5,289,179
Operating income (loss)	<u>(13,410)</u>	<u>(111,278)</u>	<u>(363,618)</u>	<u>(1,860,719)</u>
Other income (expense)				
Other income	27,962	3,547	37,945	31,187
Interest expense	(454,802)	(426,814)	(896,384)	(824,238)
Loss on change in fair value of derivative liability	(5,188,334)		(3,633,426)	
Gain on sale of investment in marketable securities	15,750		15,750	
Impairment of investment in marketable securities	-	(782,000)	-	(782,000)
Total other income (expense)	<u>(5,599,424)</u>	<u>(1,205,267)</u>	<u>(4,476,115)</u>	<u>(1,575,051)</u>
Loss before income taxes	(5,612,834)	(1,316,545)	(4,839,733)	(3,435,770)
Provision for income taxes	-	-	-	-
Net loss	(5,612,834)	(1,316,545)	(4,839,733)	(3,435,770)
Preferred Stock Dividends:				
Series A	-	(439)	-	(31,588)
Net Loss Applicable to Common Shares	<u>\$ (5,612,834)</u>	<u>\$ (1,316,984)</u>	<u>\$ (4,839,733)</u>	<u>\$ (3,467,358)</u>
Loss per share, basic and diluted	<u>(0.11)</u>	<u>(0.03)</u>	<u>(0.10)</u>	<u>(0.07)</u>
Weighted average shares outstanding	<u>49,050,244</u>	<u>49,000,244</u>	<u>49,029,133</u>	<u>48,950,494</u>
Comprehensive loss:				
Net loss	\$ (5,612,834)	\$ (1,316,545)	\$ (4,839,733)	\$ (3,435,770)
Foreign currency translation adjustment	(145,925)	(18,531)	(204,206)	(408,131)
Unrealized gain (loss) on investment	38,250	-	12,750	-
Comprehensive loss	<u>\$ (5,720,509)</u>	<u>\$ (1,335,076)</u>	<u>\$ (5,031,189)</u>	<u>\$ (3,843,901)</u>

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE SIX MONTHS ENDED APRIL 30, 2010
(UNAUDITED)

	Preferred Stock Series A Shares	Preferred Stock Series A Amount	Preferred Stock Series B Shares	Preferred Stock Series B Amount	Common Stock Shares	Common Stock Amount	Stock Subscribed	Additional Paid-in Capital	Accumulated Other Comprehensive loss	Accumulated Deficit	Total
Balance, October 31, 2009	6,287	\$ 6	-	\$ -	49,000,244	\$ 49,000	\$ 96,350	\$ 51,766,495	\$ (696,617)	\$ (59,130,336)	\$ (7,915,102)
Shares issued for compensation					75,000	75	-	4,425			4,500
Fair value of options issued as compensation								18,856			18,856
Cumulative effect of warrant liability								(4,929,622)		2,575,729	(2,353,893)
Foreign currency translation adjustment									(204,206)		(204,206)
Unrealized gain (loss) on marketable securities									12,750		12,750
Realized gain reclassified on sale of marketable securities									(15,750)		(15,750)
Net loss										(4,839,733)	(4,839,733)
Balance, April 30, 2010	6,287	6	-	-	49,075,244	49,075	96,350	46,860,154	(903,823)	(61,394,340)	(15,292,578)

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

CODA OCTOPUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED APRIL 30, 2010 and 2009
(UNAUDITED)

	April 30, 2010	April 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,839,733)	\$ (3,435,770)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	275,988	291,953
Stock based compensation	23,356	298,726
Change in fair value of warrant liability	3,633,426	-
Financing costs	512,134	767,143
Impairment of investment in marketable securities	-	782,000
Gain on sale of investment in marketable securities	(15,750)	-
Changes in operating assets and liabilities:		
(Increase) decrease in current assets:		
Accounts receivable	318,050	106,836
Inventory	973,637	(658,302)
Prepaid expenses	(13,492)	37,880
Unbilled receivables and other current assets	(1,657,271)	(197,986)
Increase (decrease) in current liabilities:		
Accounts payable and other current liabilities	357,448	741,698
Due to related parties	-	(41,904)
Net cash used in operating activities	(432,207)	(1,307,726)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of property and equipment	16,102	(52,814)
Purchases of intangible assets	(7,690)	-
Cash subject to restriction	442,601	(488,830)
Acquisitions	-	(214,317)
Cash acquired from acquisitions	-	877
Net cash provided by (used in) investing activities	451,013	(755,084)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from/(repayment of) loans	-	(1,019,124)
Preferred stock dividend	-	(47,354)
Net cash used in financing activities	-	(1,066,478)
Effect of exchange rate changes on cash	(210,369)	(587,478)
Net decrease in cash	(191,563)	(3,716,766)
Cash and cash equivalents, beginning of period	275,885	3,896,149
Cash and cash equivalents, end of period	\$ 84,322	\$ 179,383
Cash paid for:		
Interest	\$ 384,250	\$ 1,077,095
Income taxes	-	-
Supplemental Disclosures:		
Acquisition of Dragon:		
Current assets acquired	\$ -	\$ 147,039
Cash acquired	-	877
Equipment acquired	-	51,336
Goodwill and other intangible assets	-	342,013
Liabilities assumed	-	(201,166)
Deferred payments	-	(250,782)
Cash Paid for Acquisition	-	89,317
Net cash invested	-	88,440

<u>Acquisition of Tactical:</u>		
Current assets acquired	-	-
Cash acquired	-	-
Equipment acquired	-	5,000
Goodwill and other intangible assets	-	245,000
Liabilities assumed	-	-
Deferred note payable	-	(125,000)
Cash Paid for Acquisition	\$ -	\$ 125,000

The accompanying notes are an integral part of 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 and Regulation S-X of the Securities Exchange Act of 1934, as amended. 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 six month period ended April 30, 2010, are not necessarily indicative of the results that may be expected for the year ended October 31, 2010. The unaudited condensed financial statements should be read in conjunction with the consolidated October 31, 2009 financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed with the Securities Exchange Commission (SEC) on January 29, 2010.

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), is a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in New Jersey, with research and development, sales and manufacturing facilities located in the Utah, the United Kingdom and Norway.

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

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was \$62,896 for the period ended April 30, 2010 and \$255,789 for the year ended October 31, 2009.

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 April 30, 2010 and October 31, 2009:

	2010	2009
Raw materials	\$ 714,949	\$ 1,384,043
Work in process	61,648	48,389
Finished goods	1,048,191	1,365,993
Total inventory	<u>\$ 1,824,788</u>	<u>\$ 2,798,425</u>

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

Liquidity

As of April 30, 2010, we have cash and cash equivalents of \$ 84,322 and restricted cash of \$551,480 a working capital deficit of \$7,021,144 and a deficiency in stockholders' equity of \$15,292,578. For the period ended April 30, 2010, we had a net loss of \$4,839,733 and negative cash flow from operations of \$432,207. We also have an accumulated deficit of \$61,394,340 at April 30, 2010. The Company is dependent upon its ability to generate revenue from the sale of its products and services and the discretion of the note holder to release cash to cover operations (See Note 2).

NOTE 2 – RESTRICTED CASH

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

On March 16, 2009, the Company and the holder of the secured convertible debenture ("The Noteholder") entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement 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. This agreement was extended for a further period of one year, expiring on March 16, 2011. We have also received a waiver letter from the Noteholder dated January 18, 2010, under which it has waived its right to demand repayment of the loan as a result of the failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We believe that the terms of this agreement may provide us with sufficient liquidity to operate for fiscal 2011. We have been formally advised by the Noteholder's agent that the waiver will be extended through June 30, 2011 on the same terms and conditions.

At April 30, 2010 we have received net advances from this facility of \$1,598,520.

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 \$2,465,067 and \$690,344 as of April 30, 2010 and October 31, 2009 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 \$944,908 and \$111,463 as of April 30, 2010 and October 31, 2009 respectively.

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

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 \$223,511 and \$287,018 as of April 30, 2010 and October 31, 2009 respectively.

NOTE 4 - INVESTMENTS

FASB ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820") 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. ASC 820 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. ASC 820 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 April 30, 2010:

	Total	Quoted Prices in Active Markets For Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Restricted Cash	\$ 551,480	\$ 551,480	\$ -	\$ -
Short term Investment	\$ 38,250	\$ 38,250	\$ -	\$ -
Total	\$ 589,730	\$ 589,730	\$ -	\$ -
Liabilities:				
Warrant liability	5,987,320	-	5,987,320	-
Loans and Notes Payable	\$ 13,733,065	\$ -	\$ 13,733,065	\$ -
Totals	\$ 19,720,385	\$ -	\$ 19,720,385	\$ -

With the exception of assets and liabilities included within the scope of ASC 820-10-15, the Company adopted the provisions of ASC 820 prospectively effective as of the beginning of the year ended October 31, 2008. For financial assets and liabilities included within the scope of ASC 820-10-15, the Company will be required to adopt the provisions of ASC 820 prospectively as of the year beginning October 31, 2009. The adoption of ASC 820 did not have a material impact on our financial position or results of operations, and the Company do not believe that the adoption of ASC 820-10-15 will have a material impact on our financial position or results of operations.

The fair value of the restricted cash and short term investments of \$551,480 and \$38,250 respectively, at April 30, 2010 was grouped as Level 1 valuation as the market price was readily available, compared to a fair value of \$51,000 and \$994,081 for short term investments and restricted cash respectively at October 31, 2009.

Loans and notes payable are recorded at their face amounts which approximates fair value. Warrant liability is recorded at fair value as is determined by observable market price and based on the Black-Scholes model.

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

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 April 30, 2009, this investment had a value of \$68,000, with an unrealized loss of \$782,000. This unrealized loss had, until now been included in the determination of comprehensive loss, but during the year ended October 31, 2009, we have determined that this investment in marketable securities is impaired because we believe that the fair market value of the investment has permanently declined. Accordingly, we have written off the \$782,000 during the year ended October 31, 2009. In April 2010, the company sold half of its investment for \$49,750, resulting in a realized gain (on the written down value) of \$15,750. The remaining fair value of this investment is \$38,250 as of April 30, 2010.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total \$202,240 and \$285,691 at April 30, 2010 and October 31, 2009 respectively. These totals comprise the following:

	2010	2009
Deposits	\$ 99,836	\$ 96,277
Value added tax (VAT)	17,526	113,636
Other receivable	84,878	75,778
Total	\$ 202,240	\$ 285,691

NOTE 6 - FIXED ASSETS

Property and equipment at April 30, 2010 and October 31, 2009 is summarized as follows:

	2010	2009
Machinery and equipment	\$ 856,210	\$ 1,001,385
Accumulated depreciation	(695,044)	(733,420)
Net property and equipment assets	\$ 161,166	\$ 267,964

Depreciation expense recorded in the statement of operations for the period ended April 30, 2010 and year ended October 31, 2009 is \$77,507 and \$238,632, respectively.

NOTE 7 - INTANGIBLE ASSETS AND GOODWILL

The Company accounts for intangible assets and goodwill in accordance with ASC 350. Goodwill and Other Intangible Assets, are evaluated on an annual basis, and when there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations.

The identifiable intangible assets acquired and their carrying value at April 30, 2010 and October 31, 2009 is:

	2010	2009
Customer relationships (weighted average life of 10 years)	\$ 784,243	\$ 784,243
Non-compete agreements (weighted average life of 3 years)	278,651	278,651
Patents (weighted average life of 10 years)	73,805	67,837
Licenses (weighted average life of 2 years)	100,000	100,000
Total amortized identifiable intangible assets - gross carrying value	1,236,699	1,230,731
Less accumulated amortization	(610,879)	(533,462)
Net	625,820	697,269
Residual value	\$ 625,820	\$ 697,269

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

Estimated annual amortization expense as of April 30, 2010 is as follows:

2011	\$ 65,838
2012	131,676
2013	76,835
2014	75,183
2015 and thereafter	276,288
Total	<u>\$ 625,820</u>

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$ 77,417 and \$231,321 for the period ended April 30, 2010 and year ended October 31, 2009, respectively. Goodwill is not being amortized.

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

NOTE 8 - CAPITAL STOCK

During the period ended April 30, 2010, we issued 75,000 shares of our common stock, proportionately to three (3) employees as part of their bonus plans.

In April 2010, we undertook to issue 100,000 of common stock as part of directors' compensation. These shares will only be issued if the director serves one year on the Board.

During the year ended October 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 ended October 31, 2008, leaving a charge for compensation in the period ended October 31, 2009 of \$18,520.

Other Equity Transactions

During the period ended January 31, 2010, we did not issue any common share purchase options. However, options issued in earlier periods vested resulting in a charge of \$18,856 for the six months ended April 30, 2010.

During the year ended October 31, 2009, we issued 50,000 common share purchase options in relation to the Tactical acquisition. However, options issued in earlier periods vested, resulting in a charge of \$295,853 in this period. There were also 210,000 options cancelled connected with staff departures, of which 95,000 were exercisable.

In April 2010, we undertook to grant 50,000 options to purchase our common stock as part of directors' compensation. 25,000 of these vests on June 1, 2010 and the remainder after one year.

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

NOTE 9 - WARRANTS AND STOCK OPTIONS

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

Warrants	Six months ended April 30, 2010		Year ended October 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	32,583,418	\$ 1.42	32,583,418	\$ 1.42
Granted during the period	-	-	-	-
Terminated during the period	-	-	-	-
Outstanding at the end of the period	32,583,418	\$ 1.42	32,583,418	\$ 1.42
Exercisable at the end of the period	32,583,418	\$ 1.42	32,583,418	\$ 1.42

The number and weighted average exercise prices of warrants outstanding as of April 30, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	750,000	1.00	750,000
0.58	400,000	0.92	400,000
1.00	2,750,000	1.86	2,750,000
1.30	14,341,709	1.68	14,341,709
1.50	-	-	-
1.70	14,341,709	1.68	14,341,709
1.80	-	-	-
Totals	32,583,418	1.73	32,583,418

Stock Options	Six months ended April 30, 2010		Year ended October 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	5,595,900	\$ 1.18	5,755,900	\$ 1.18
Granted during the period	-	-	50,000	1.30
Terminated during the period	(2,095,000)	1.29	(210,000)	1.32
Outstanding at the end of the period	3,500,900	\$ 1.13	5,595,900	\$ 1.18
Exercisable at the end of the period	3,246,299	\$ 1.12	5,214,149	\$ 1.17

The number and weighted average exercise prices of stock purchase options outstanding as of April 30, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	2,400,900	0.35	2,400,900
1.30	700,000	3.30	445,400
1.50	140,000	1.97	140,000
1.70	260,000	2.17	260,000
1.80	-	-	-
Totals	<u>3,500,900</u>	<u>1.14</u>	<u>3,246,299</u>

NOTE 10 – DERIVATIVE LIABILITY

In June 2008, the FASB issued new accounting guidance (FASB ASC 815-40) which requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument's contingent exercise provisions and settlement provisions. Instruments not indexed to their own stock fail to meet the scope exception of ASC 815 and should be classified as a liability and marked-to-market. The statement is effective for fiscal years beginning after December 15, 2008 and is to be applied to outstanding instruments upon adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to the opening balance of retained earnings. The Company has assessed its outstanding equity-linked financial instruments and has concluded that, effective November 1, 2009, the value of our warrants will need to be recorded as a derivative liability due to the fact that the conversion price is subject to adjustment based on subsequent sales of securities. The cumulative effect of the change in accounting principle on November 1, 2009 includes an increase in our derivative liability related to the fair value of the conversion feature of \$2,353,893. Fair value at November 1, 2009 was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 1.06%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 302.22%; (4) an average expected life of the warrants of 2.22 years and (5) estimated fair value of common stock of \$0.08 per share.

At April 30, 2010 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at April 30, 2010 is \$5,987,320. The fair value of the conversion features was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.74%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 303.75%; (4) an average expected life of the conversion feature of 1.97 years and (5) estimated fair value of common stock of \$0.21 per share.

We have recorded a charge of \$3,633,426 during the six months ended April 30, 2010 related to the change in fair value during the quarter.

NOTE 11 - INCOME TAXES

The Company has adopted FASB ASC Topic 740 Income Taxes which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$45,400,000 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 \$15,436,000. 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 \$4,368,141, with no expiration. The deferred tax asset related to the carry-forward is approximately \$2,670,000. The Company has provided a valuation reserve against the full amount of the benefits, because in the opinion of management based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

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Income tax expense for 2009 and 2010 represents income taxes on our Norwegian subsidiary.

Components of deferred tax assets as of April 30, 2010 and October 31, 2009 are as follows:

Non-Current	2010	2009
Net Operating Loss Carry Forward	\$ 18,106,000	\$ 17,736,000
Valuation Allowance	(18,106,000)	(17,736,000)
Net Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 - CONTINGENCIES AND COMMITMENTS

Litigation

We are currently engaged in three lawsuits.

The first one involves 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, tortious 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. The Parties have now completed the discovery process and we expect the hearing to be scheduled. We filed a motion on June 8, 2011 for Partial Summary Judgment.

The second one involves Federal Engineering & Marketing Associates Inc (FEMA) a Colorado corporation. FEMA is a former sales representative of Coda Octopus Colmek, FEMA claims breach of contract and seeks various relief in the District Court, Routt County, Colorado (Case Number 2009CV278). We have answered the complaint which included a counter-claim. We intend to defend ourselves vigorously in these proceedings.

On April 28, 2010 we instituted legal action in the Supreme Court of the State of New York against our ex- Chief Executive Officer, ex-Chief Financial Officer and two other ex-officers of the Company for, among other things, breach of contract. The defendants' answer is due by June 15, 2010.

Operating Leases

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2015. Future minimum lease obligations are approximately \$1,132,298, with the minimum future rentals due under these leases as of April 30, 2010 as follows:

2011	\$ 218,517
2012	363,259
2013	219,027
2014	176,568
2015 and thereafter	154,927
Total	<u>\$ 1,132,298</u>

Concentrations

We had no concentrations of purchases of over 5% during the period ended April 30, 2010. We had sales concentrations of over 5% during the period ended April 30, 2010 due to sales to a total of four separate customers for \$ 2,178,952.

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NOTE 13 - NOTES AND LOANS PAYABLE

A summary of notes payable at April 30, 2010 and October 31, 2009 is as follows:

	<u>April 30, 2010</u>	<u>October 31, 2009</u>
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.	\$ 13,835,072	\$ 13,067,929
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.	152,993	165,594
Total	<u>\$ 13,733,065</u>	<u>\$ 13,233,523</u>

In connection with the secured convertible debenture noted above and the Cash Control Framework Agreement (see below), we carry \$1,150,106 deferred financing costs as an asset on the consolidated balance sheet to April 30, 2010, which represents \$1,694,893 in financing closing costs we incurred, net of \$ 544,787 in amortization expense at April 30, 2010 and \$423,723 in amortization expense at October 31, 2009. We amortize deferred financing costs over the life of the financing facility using the straight line method.

On March 16, 2009, the Company and the holder of the secured convertible debenture ("the Noteholder") entered into a Cash Control Framework Agreement, pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement 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 may provide us with sufficient liquidity to operate for fiscal 2010.

On January 18, 2010, the noteholder notified us in writing that it had waived its right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants.

Subsequent to the year ended October 31, 2009, the Cash Control Framework Agreement was extended to March 16, 2011. We have been formally advised by the Noteholder's agent that the waiver will be extended through June 30, 2011 on the same terms and conditions.

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NOTE 14 - SEGMENT INFORMATION

The Company's two reportable segments are managed separately based on fundamental differences in their operations. Coda Octopus Colmek and Coda Octopus Martech make up the contracting part of the business, and Coda Octopus Products Limited and Coda Octopus Products Inc. make up the product sales.

As a result of the Company's internal reorganization the Company has restated previously reported segment information.

The contracting segment deals mainly with Government agencies and defense prime contractors and have expertise in designing and producing specific devices and components for such customers, with an emphasis on sub-sea technology. This segment also manufactures the Group's products (for Coda Octopus Products).

The products segment designs and produces, through its arrangements with the contracting segment, sub-sea software and hardware products aimed at the Oil and Gas, Underwater Construction, and Port and Harbor Security markets.

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, which have been removed from the information shown below.

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

	Six months ended	
	April 30, 2010	April 30, 2009
Net Sales to External Customers:		
Contracting	\$ 3,026,557	\$ 4,899,495
Products	<u>3,755,238</u>	<u>2,607,058</u>
Total Sales to External Customers	<u>\$ 6,781,795</u>	<u>\$ 7,506,553</u>
Depreciation and Amortization:		
Contracting	\$ 120,288	\$ 151,837
Products	11,053	31,006
Corporate	144,647	109,109
Total Depreciation and Amortization	<u>\$ 275,988</u>	<u>\$ 291,953</u>
General and Administrative Expense:		
Contracting	\$ 1,439,262	\$ 1,569,180
Products	1,159,809	986,180
Corporate	885,293	2,733,819
Total General and Administrative Expense	<u>\$ 3,484,364</u>	<u>\$ 5,289,179</u>
Capital Expenditures:		
Contracting	\$ -	\$ 9,250
Products	-	10,237
Corporate	7,690	33,327
Total Capital Expenditures	<u>\$ 7,690</u>	<u>\$ 52,814</u>
Operating Income (Losses):		
Contracting	\$ (1,216,105)	\$ 1,191,605
Products	1,737,780	1,029,483
Corporate	(885,293)	(4,081,808)
Total Segment Operating Losses	<u>\$ (363,618)</u>	<u>\$ (1,860,720)</u>

	For the period ended	
	<u>April 30, 2010</u>	<u>October 31, 2009</u>
Segment Assets:		
Contracting	\$ 7,370,611	\$ 7,235,301
Products	2,874,785	2,867,693
Corporate	2,358,837	3,034,386
Total Segment Assets	<u>\$ 12,604,233</u>	<u>\$ 13,137,380</u>

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

Those geographic locations are:

* United States

* Europe

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 April 30, 2010 and the year ended October 31, 2009:

	Six months ended	
	<u>April 30, 2010</u>	<u>April 30, 2009</u>
NET SALES TO EXTERNAL CUSTOMERS:		
United States	\$ 3,325,751	\$ 3,382,695
Europe	3,456,044	4,123,858
TOTAL NET SALES TO EXTERNAL CUSTOMERS	<u>\$ 6,781,795</u>	<u>\$ 7,506,553</u>

	For the period ended	
	<u>April 30, 2010</u>	<u>October 31, 2009</u>
ASSETS:		
United States	\$ 8,372,318	\$ 7,919,830
Europe	4,231,915	5,217,550
TOTAL ASSETS	<u>\$ 12,604,233</u>	<u>\$ 13,137,380</u>

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NOTE 15 – SUBSEQUENT EVENTS

As part of our continued restructuring program, we have filled three vacancies on our Board of Director and have entered into service agreements with each of these directors. The Company has agreed to pay each of the new directors \$1,875 per board meeting plus expense reimbursement. With immediate effect, each will be granted options to purchase 50,000 shares of Company common stock at \$1.05 per share annually or such other price as the Board or Compensation Committee shall deem fit. In addition, each will be granted 100,000 shares of common stock upon the completion of the first year of his board membership. One of the new directors will also be granted 50,000 options for acting as Chairman of the Company's Audit Committee and paid an additional fee of \$10,000 per annum.

The Company has also entered into a new service agreement with Taktos Limited for the services of Geoff Turner, our Chief Executive Officer on June 1, 2010.

In addition, on June 1, 2010, we entered into an employment agreement with Judith Wallace our Chief Financial Officer. She will be paid an annual base salary of \$200,000. In addition, she will be paid a monthly car allowance of \$850.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OPERATIONS

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 sonar and other products, as well as engineering design and manufacturing services on a worldwide basis. Headquartered in Jersey City, New Jersey, with research and development, sales and manufacturing facilities located in the United Kingdom, United States and Norway, the Company is 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, oil and gas exploration and security, underwater port 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 the USA, 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 then controlling shareholder, Fairwater Technology Group Ltd, 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 the United States.

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

1. It 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 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 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.

These will 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 prime contractors including defense contractors.

5. The Company has also 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, Coda Octopus 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 is with government authorities both in the US and throughout the world. In the US, the Company has deployed systems with Jacksonville Sheriff, FL, and in Contra Costa County, CA, with further 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, which includes Dragon Design Limited (now fully integrated into Coda Octopus Martech Limited., which was fully acquired on December 15th 2008 and is based in Weymouth, Dorset, United Kingdom.

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 and oil, gas and construction. 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 on oil and gas, and oceanographic research and exploration, where we market to survey companies, research institutions and 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.

- ☐ 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 sub-sea construction, a particularly challenging environment. We have also developed for one of our customers a tailored software application to allow the laying of concrete Accropodes™ (large concrete blocks) used 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 our products provide, instead of days or weeks later, when a new vessel may even have to be used, incurring much greater cost.
- ☐ 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 Coda Octopus Colmek, based in Salt Lake City, Utah, USA, we provide engineering services to a wide variety of clients in the subsea, defense, nuclear, government and pharmaceutical industries. These engineering capabilities are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

For the foreseeable future, we intend to continue 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 the 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 supplies into this market 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 Annual Consolidated Financial Statements on Form 10-K.

Revenue Recognition

We record revenue in accordance with FASB ASC Topic 605 - Revenue Recognition.

Revenue is derived from our products sold by our subsidiaries, Coda Octopus Products Inc. and Ltd., from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications. Revenue is also derived through service contracts gained by our Martech, Colmek Tactical 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 ASC 605, and recognize revenue for equipment upon delivery and for installation and other services as performed. ASC 605 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 FASB ASC Topic 985 - Software. 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

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 "Compensation - Stock Compensation" ("ASC 718"). Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award. This value is expensed ratably over the vesting period for time-based awards and when the achievement of performance goals is probable in our opinion for performance-based awards. Determining the fair value of share-based awards at the grant date requires judgment; including volatility, terms, and estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock based compensation expense and the Company's results of operations could be materially impacted.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of FASB ASC 740 - 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 ASC 350 - Intangibles - Goodwill and Other. To apply ASC 350, a company is divided into separate "reporting units", each representing groups of products that are separately managed. For this purpose, we have two reporting units. 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 market capitalization of our common stock is below book carrying 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 ASC 350.

Results of Operations

Recent Developments

Cash Framework Agreement

On March 16, 2009 the Company entered into a "Cash Control Framework Agreement" with the Royal Bank of Scotland (the debenture holder) pursuant to which it is assumed that, subject to the Company being compliant with the terms of the transaction documents entered into on February 21, 2008, no adverse actions will be taken by the debt holder. This Agreement has been extended until March 16, 2011 and it creates debtor book financing package to allow the Company to obtain up to \$2.15M in working capital in exchange for receivables or project financing. As part of the terms of that agreement, the Company committed to a cost reduction program (including management pay cuts) to reduce significantly our SG&A, R&D and Capital Expenditure costs.

In addition, on January 18, 2010, the debenture holder waived for one year the right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We have been formally advised by the Noteholder's agent that the waiver will be extended through June 30, 2011 on the same terms and conditions.

Cost Cutting Program

In February 2009, we embarked on a cost reduction program. This resulted in annualized savings of at least \$3.35 million for the year ended October 31, 2009. Actual savings for the year ended October 31, 2009 amounted to \$2.1 million against budget. These cost savings against budget were achieved in the following areas:

Description	Amount
Reduction in Research and Development:	\$ 321,837
Reductions in other SG&A costs	\$ 3,061,991
Total SG&A Cost Savings	\$ 3,383,828
Reductions in Capital Expenditure	\$ 179,725

The following table shows actual quarterly savings against budget for the year ended October 31, 2009:

Period	Amount
Quarter Ended January 31, 2009	\$ 237,000
Quarter Ended April 30, 2009	\$ 419,000
Quarter Ended July 31, 2009	\$ 750,000
Quarter Ended October 31, 2009	\$ 707,000
Total cost saving against budget for the 2009 Period	\$ 2,113,000

Between September 2009 and December 2009, we accelerated our program of reducing the levels of management in the Group. We have eliminated the “Senior Vice President” level of management and now have a total of three full time staff members (reduced from twelve) who are not employed in any of our subsidiaries. We have also eliminated a large number of arrangements with consultants and Government lobbyists.

The Group’s management now consists of a Group CEO (with overall responsibility for Group performance), Chief Financial Officer, CTO (who also manages the Group’s R&D), and the CEOs of the various Group Companies.

We believe that the cost cutting program has achieved its objectives and we expect to maintain our SG&A at around \$8.5 million during the current fiscal year (down from approximately \$11.238 million for the 2009 Period). We intend to reinvest some of the savings in additional sales and marketing staff to ensure that we are gaining the maximum advantage from our leading technology and skills. We also anticipate hiring one more senior executive to operate at Group level during the current fiscal year.

Reorganization

The Company commenced a reorganization program in which the R&D unit has become a more horizontal unit working to make advances in our core technology (3D sonar) while helping to spread these advances across the Group, as well as promoting technology advances from other parts of the Group.

Within our products company in Edinburgh, we formed a dedicated unit which is focused entirely on the Echoscope® rollout plan for the various markets the Company has identified. The function of this unit is to oversee production, development, documenting and delivering the core product to the defined markets. Manufacturing of the Echoscope® will move to Salt Lake City (Colmek), to comply with the Defense Department’s preference to have technology products manufactured domestically, and to Weymouth, UK, (Martech).

Although the economic environment has been challenging, the markets that the Company addresses – engineering, defense, oil and gas, and security – are less affected than many others. We intend to continue to exploit our lead in 3D real-time sonar, while tactically streamlining the business to be profitable at a much lower revenue rate.

On or around September 2009, we also reorganized our executive and management structure by eliminating the Senior Vice President (SVP) tier which comprised eight SVPs and replacing the Group CEO who had been the founder and Group CEO since inception. Our management structure now consists of a Group CEO (with overall responsibility for Group performance), Chief Financial Officer, CTO (who also manages the Group’s R&D), and the CEOs of the various Group Companies.

Since the beginning of the current financial year, a number of vacancies on the Board of Directors have been filled and the Board now consists of two executive directors and three non-executive directors.

Comparison of three months ended April 30, 2010, compared to three months ended April 30, 2009.

Revenue: Total revenues for the quarter ended April 30, 2010 (the “2010 Period”) and the quarter ended April 30, 2009 (the “2009 Period”) were \$3,713,585 and \$4,307,447 respectively, representing a decrease of 13.8%. Contributing factors to this lack of growth were adverse exchange rate movements combined with the global economic downturn which still affected the business in this quarter.

Gross Margins: Margins were slightly weaker in the 2010 Period at 61.7% (gross profit of \$2,290,701) compared to 63.4% (\$2,731,659 in the 2009 Period, reflecting a slightly different mix of sales in our businesses (products versus project work) combined with lower revenues.

Research and Development (R&D). R&D spending decreased very marginally from \$456,477 in the 2009 Period to \$455,173 in the 2010 Period. In line with our cost cutting plan. This level of spending still allows us to devote considerable R&D resources to introduce product variants of our core technology to the market over the next months.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2010 Period decreased to \$1,848,938 from \$2,386,460 in 2009, a reduction of 22.5% which reflects activity under the cost reduction plan that was executed during the fiscal year ended October 31, 2009 and in quarter one of 2010.

Across the Group, key areas of 2010 Period expenditure include wages and salaries, where we spent \$1,211,940 or 66.1% during the 2010 Period against \$1,775,417 or 62.4% of our SG&A cost during the 2009 Period; legal and professional fees, including accounting, audit and investment banking services, where we spent \$175,706 or 9.6% in 2010 against \$371,777 or 13.1% of our SG&A costs in 2009; travel costs increased to \$121,334 or 6.6% in 2010 from \$54,368 or 1.9% of SG&A in the 2009 Period, rent for our various locations increased in 2010 to \$156,260 or 8.5% against \$153,523 or 5.4% of SG&A in 2009; marketing reduced in the 2010 Period to \$130,834 or 7.1% of SG&A against \$186,647 or 6.6% of SG&A in 2009, as we reduced the number of consultants engaged in the Business.

Operating Income/Loss. We had an operating loss of \$13,410 in the 2010 Period against an operating loss of \$111,278 in the 2009 Period.

Derivative Liability

In June 2008, the FASB issued new accounting guidance (FASB ASC 815-40) which requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument’s contingent exercise provisions and settlement provisions. The Company has assessed its outstanding equity-linked financial instruments and has concluded that, the value of our warrants will need to be recorded as a derivative liability

Fair value at November 1 2009 was determined using the Black-Scholes method based and produced an estimated fair value of common stock of \$0.08 per share. At April 30, 2010 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at April 30, 2010 is \$5,987,320. Accordingly, we have recorded a charge of \$5,188,334 during the three months ended April 30, 2010 related to the change in fair value during the quarter.

Interest Expense. Interest expense increased in the 2010 Period to \$454,802 from the 2009 Period interest costs which were \$426,814. In both periods we have included amortization of the 30% redemption premium for our convertible note, at a cost of \$128,571. We have accrued interests on the convertible note of \$450,150.

Dividends and Other Stock Charges. In the 2010 Period, no dividends were due to be paid on the Series A Preferred stock, versus \$439 in 2009, This was due to the fact that we had no surplus or net profits from which to declare and pay such dividends.

Segment Analysis

This section should be read in conjunction with Note 14 to the Condensed Consolidated Financial Statements.

Examining HQ SG&A, which is where we have concentrated our cost cutting exercise, we find that overall HQ SG&A (defined as Group Headquarters, and the UK and US Holding Companies) was reduced from \$1,906,411 in the 2009 Period to \$358,110 in the 2010 Period. Components of this reduction are Rent and Utilities reduced from \$54,016 to \$27,202, Office Expenses reduced from \$56,106 in 2009 to \$16,882 in Q2 2010, Payroll reduced from \$437,976 to \$ 63,294, Insurances decreased from \$78,226 to \$3,668, Professional Services reduced from \$356,696 to \$176,420, Forex reduced from \$971 to \$92, Marketing reduced from \$107,425 to \$11,390, and Travel from \$32,218 to \$63,821. Moving forward we are planning to increase the HQ SG&A, in line with increasing revenues, in a couple of key areas where we may need to add additional staff. We have begun this process and have added a Chief Financial Officer and with expected increasing revenues anticipate additional financial staff to address material weakness identified.

We operate in two business segments, Contracting Sales, and Product Sales. Our contracting business consists of Coda Octopus Colmek, Coda Octopus Martech (including the acquired Dragon Design) and Coda Octopus Tactical Intelligence. Our Products business consists of Coda Octopus Products Limited and Coda Octopus Products Inc.

Revenues from Contracting in during the quarter ended April 30, 2010 were \$1,577,392 or 42% of the Group revenues versus \$2,592,596 in the quarter ended April 30, 2009, whereas revenues from Products were \$2,136,193 and were 58% of the Group revenues, versus \$1,714,841 in 2009.

SG&A costs incurred in our contracting businesses were \$573,605 in the quarter ended April 30, 2010 versus \$674,726 in the quarter ended April 30, 2009. SG&A costs in our Products business in the quarter ended April 30, 2010 were \$739,134 versus \$481,781 in the quarter ended April 30, 2009.

Operating loss in our contracting business was \$442,641 in the quarter ended April 30, 2010 versus an operating profit of \$814,819 in the quarter ended April 30, 2009. In the quarter ended April 30, 2010 we made an operating profit of \$891,474 in our Products business versus an operating profit of \$1,190,222 in the quarter ended April 30, 2009.

Comparison of six month period ended April 30, 2010, compared to six month period ended April 30, 2009.

Revenue: Total revenues for the six month period ended April 30, 2010 (the “2010 Period”) and the quarter ended April 30, 2009 (the “2009 Period”) were \$6,781,795 and \$7,506,553 respectively, representing a decrease of 9.6%. Contributing factors to this lack of growth were adverse exchange rate movements combined with the global economic downturn and particularly in the oil and gas industry at the start of the year, which still affected the business in this period.

Gross Margins: Margins for the 2010 Period were 59.8% (gross profit of \$4,052,932) compared to 59.8% (\$4,488,618 in the 2009 Period, reflecting a slightly different mix of sales in our businesses (products versus project work) combined with lower revenues.

Research and Development (R&D). R&D spending decreased from \$1,060,158 in the 2009 Period to \$932,186 in the 2010 Period in line with our cost cutting plan. This level of spending still allows us to devote considerable R&D resources to introduce product variants of our core technology to the market over the next months.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2010 Period decreased to \$3,484,364 from \$5,289,179 in 2009, a reduction of 34.1% which reflects activity under the cost reduction plan that was executed during the fiscal year ended October 31, 2009 and in quarter one of 2010.

Across the Group, key areas of 2010 Period expenditure include wages and salaries, where we spent \$2,446,107 or 55.6% during the 2010 Period against \$3,675,378 or 50.0% of our SG&A cost during the 2009 Period; legal and professional fees, including accounting, audit and investment banking services, where we spent \$322,741 or 7.3% in 2010 against \$643,964 or 8.8% of our SG&A costs in 2009; travel costs increased to \$220,476 or 5.0% in 2010 from \$182,119 or 2.5% of SG&A in the 2009 Period; rent for our various locations decreased in 2010 to \$297,924 or 6.8% against \$308,662 or 4.2% of SG&A in 2009; marketing reduced in the 2010 Period to \$163,918 or 3.7% of SG&A against \$460,779 or 6.3% of SG&A in 2009.,

Operating Loss. We made a loss from operations of \$363,618 in the 2010 Period against an operating loss of \$1,860,719 in the 2009 Period. This reduction in operating loss is due to the significant cost reductions at the HQ level.

Derivative Liability

Fair value at November 1, 2009 was determined using the Black-Scholes method based and produced an estimated fair value of common stock of \$0.08 per share. At April 30, 2010 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at April 30, 2010 is \$5,987,320. Accordingly, we have recorded a charge of \$3,633,426 during the six months ended April 30, 2010 related to the change in fair value during the quarter.

Interest Expense . Interest expense increased in the 2010 Period to \$896,384 from the 2009 Period interest costs which were \$824,238. In both periods we have included amortization of the 30% redemption premium for our convertible note, at a cost of \$128,571. We have accrued interests on the convertible note of \$450,150.

Dividends and Other Stock Charges. In the 2010 Period, no dividends were due to be paid on the Series A Preferred stock, versus \$31,588 in 2009. This was due to the fact that we had no surplus or net profits in 2010 from which to declare and pay such dividends.

Segment Analysis

This section should be read in conjunction with Note 14 to the Condensed Consolidated Financial Statements.

Examining HQ SG&A, which is where we have concentrated our cost cutting exercise, we find that overall HQ SG&A (defined as Group Headquarters, and the UK and US Holding Companies) has reduced from \$3,147,503 in the 2009 period to \$701,538 in the same period of 2010. Components of this reduction are Rent and Utilities where we have reduced from \$115,320 to \$52,296, Office Expenses reduced from \$116,193 in 2009 to \$33,523 in 2010, Payroll reduced from \$953,973 to \$146,867, Insurances from \$122,696 to \$64,525, Professional Services reduced from \$662,598 to \$310,867, Forex reduced from \$37,711 to \$447, Marketing reduced from \$280,040 to 2,962, whilst Travel increased from \$76,195 to \$94,324. Moving forward we are increasing the HQ SG&A in line with increasing revenues, in a couple of key areas where we need to add additional staff.

We operate in two business segments, Contracting Sales, and Product Sales. Our contracting business consists of Coda Octopus Colmek, Coda Octopus Martech (including the acquired Dragon Design) and Coda Octopus Tactical Intelligence. Our Products business consists of Coda Octopus Products Limited and Coda Octopus Products Inc.

Revenues from Contracting during the period ended April 30, 2010 were \$3,026,557 or 45% of the Group revenues versus \$4,899,495 in the period ended April 30, 2009, whereas revenues from Products were \$3,755,238 and were 55% of the Group revenues, versus \$2,607,058 in 2009.

SG&A costs incurred in our contracting businesses were \$1,439,262 in the period ended April 30, 2010 versus \$1,569,180 in the period ended April 30, 2009. SG&A costs in our Products business in the period ended April 30, 2010 were \$1,159,809 versus \$986,180 in the period ended April 30, 2009.

Operating loss in our contracting business was \$1,216,105 in the period ended April 30, 2010 versus an operating profit of \$1,191,605 in the period ended April 30, 2009. In the period ended April 30, 2010 we made an operating profit of \$1,737,780 in our Products business versus an operating profit of \$1,029,483 in the period ended April 30, 2009.

Liquidity and Capital Resources

For the period ended April 30, 2010, the Company has an accumulated deficit of \$61,394,340, negative working capital of \$7,021,144, a capital deficit of \$15,292,578 and generated a negative cash flow from operations of \$432,207 in 2010 Period against a deficit of \$1,307,726 in the 2009 Period. The Company is dependent upon its ability to generate revenue from the sale of its products and services and the discretion of the note holder to release cash to cover operations. Management believes that based upon its commitment to maintain SG&A at around the \$8.5 million level until the business is profitable and based upon our reorganization of our business, prospects have been enhanced and this is evidenced by our being in receipt of approximately \$11.8 million dollars of additional contracts and purchase orders received in this financial year and up to the date of this filing; based upon the Company's cash flow projections for its business operations through January 2011; collectability of its receivables in the ordinary course of business; based on the Noteholder's 12 month extension of the cash control framework agreement as discussed in Note 13 and the Noteholder's agreement to waive its right to demand repayment of the loan until March 16, 2011, the Company will be able to continue its operations through October 31, 2010. We have been formally advised by the Noteholder's agent that the waiver will be extended through June 30, 2011 on the same terms and conditions. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and generating sufficient cash flows from operations to meet future obligations.

Financing Activities

For the most part, we have financed our operations through the issuance of shares of our common stock and preferred stock and warrants.

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). 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 \$2,000,000 of the \$6,000,000 for general working capital purposes. It should be noted that the transaction documents provides that all amendment shall be in writing signed by the parties and this was not obtained by the Company and therefore not valid.

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 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 have had to adhere to a strict cost cutting program which has involved reducing our SG&A, R&D and capital expenditure by an annualized \$3.35 million and in this financial year, whilst we have achieved the required costs cut, we expect to maintain our SG&A at around \$8.5 million level. The cash framework agreement was extended for a further period of 12 months and now expires on March 16, 2011.

On January 18, 2010, the Noteholder notified us in writing that it had waived its right to demand repayment of the loan as a result of our failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We have been advised by the noteholder agent, that the waiver will be extended until June 30, 2011 on the same terms and conditions.

Our ability to survive current financial difficulties resulting from our cash flow deficit is dependent on our capacity to generate revenues from the sale of our products and services. In addition, we are highly dependent on the discretion of the Noteholder to release cash to us to cover our operating expenses.

Nevertheless, as a result of the cost cutting program discussed above and by further adjusting our operations if and to the extent needed, we believe that we will have sufficient capital resources to meet projected cash flow deficits. However, if during fiscal 2010 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. In order to fund our operations during the current fiscal year, we estimate that we need to generate additional cash beyond that which is available to us Cash Control Framework Agreement to be able to continue our operations at their current levels. However, there can be no assurance that we will be successful in generating sufficient revenues from operations.

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 generated sufficient liquidity. We will need to continue to raise 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.

Our current financing options are limited due to onerous anti-dilution provisions contained in the Purchase Agreements entered into in April and May 2007. Under the terms of the Purchase Agreements, the investors who purchased stock in the Company thereunder are entitled to receive shares of common stock without additional consideration any time we sell equity securities at a price per share of less than \$1.00. We have entered into negotiations to amend these restrictions contained in the Purchase Agreements. Without such amendments, we may be unable to raise additional equity financing on terms that are commercially acceptable to us. 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. In addition, our stock was recently stricken from the OTC Bulletin Board for failure to make our periodic filings on a timely basis. This may further impact on the liquidity of our stock putting further downward pressure on its price and making it less likely that we will be able to raise equity financing on acceptable terms.

We have also entered into preliminary discussions with the holder of the convertible note to prevent it from taking actions adverse to us and to have the debt be reclassified on our books from a short term obligation to a long term obligation. These discussions have been successful and on January 18, 2010 the note holder notified us in writing that it had waived its right to demand repayment of the loan as a result of the failure to observe certain specified loan covenants. The waiver will expire on the first anniversary of the waiver letter. We can give no assurance that we will be successful in any of these efforts. If we are unable to raise additional capital in the near future, the Company may have to curtail its business operations significantly.

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.

Inflation and Foreign Currency

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

The Company's operations are conducted in the United States, and through its wholly-owned subsidiaries, in the United Kingdom. As a result, fluctuations in currency exchange rates do 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 addition, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. The Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, and there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Also because differing portions of our revenues and costs are denominated in foreign currency, movements can impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens without correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure.

The translation of the Company's UK operations' pound Sterling denominated balance sheets into US dollars has been affected by the weakening of the average value of the US dollar against the British pound sterling in the relevant time periods from \$1.47 in 2009, to \$1.58 in 2010, an approximate 7.5% depreciation in value. These are the values that have been used in the calculations below.

The translation of the Company's Norwegian operation's Kroner denominated balance sheets into US dollars, as of October 31, 2009, has also been affected by the currency fluctuations of the US dollar against the Kroner from and average rate of \$0.146 during 2009, to \$0.172 during 2010, an approximate 17% change in value. These are the values that have been used in the calculations below.

The impact of these currency fluctuations on the 2010 Period is shown below:

	Pound Sterling		Norwegian Kroner		Total Effect
	Actual Results	Constant Rates	Actual Results	Constant Rates	
Revenues	\$ 3,456,044	\$ 3,198,514	\$	\$	\$ (257,530)
Costs	3,619,622	3,349,903	318,294	269,490	(318,524)
Net Income/(Losses)	(163,578)	(151,389)	(318,294)	(269,490)	60,994
Assets	17,121,788	16,727,146	737,173	663,171	(468,644)
Liabilities	13,999,717	12,549,821	796,755	714,238	(1,532,413)
Net Assets	3,122,071	4,177,326	(59,582)	(51,067)	1,063,769

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, increased profits for the year by \$60,994 and increased net assets by \$1,063,769. In addition, the Company booked transactional exchange rate gains of \$50,454 during 2010. All of these amounts are material to our overall financial results.

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 the 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 April 30, 2010. 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. During the period ended April 30, 2010 Management commissioned an independent evaluation designed to provide recommendations to address control and procedure issues identified in the prior report and the current evaluation. Management has commenced the process of implementing these recommendations designed to remediate the material weakness previously identified. As part of these actions, the Company appointed a Chief Financial Officer. This appointment is expected to improve approval procedures, enhance segregation of duties and the quality of financial reporting.

The Company continues to investigate ways to improve its 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 three lawsuits.

The first one involves 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, tortious 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. The Parties have now completed the discovery process and we expect the hearing to be scheduled for the second quarter of this financial year. We filed a motion on June 8, 2011 for Partial Summary Judgment.

The second one involves Federal Engineering & Marketing Associates Inc (FEMA) a Colorado corporation. FEMA is a former sales representative of Coda Octopus Colmek, FEMA claims breach of contract and seeks various relief in the District Court, Routt County, Colorado (Case Number 2009CV278). We have answered the complaint which included a counter-claim. We intend to defend ourselves vigorously in these proceedings.

On April 28, 2010 we instituted legal action in the Supreme Court of the State of New York against our ex- Chief Executive Officer, ex-Chief Financial Officer and two other ex-officers of the Company for, among other things, breach of contract. The defendants' answer is due by June 15, 2010.

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

- 10.28 Consultancy Agreement between the Company and Taktos Limited dated June 1, 2010
- 10.29 Employment Agreement between the Company and Judith Wallace dated June 1, 2010
- 10.30 Letter of Appointment issued by the Company in respect of Rear Admiral Christopher Parry dated June 1, 2010
- 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

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: June 14, 2010

/s/ Geoff Turner

Geoff Turner
Chief Executive Officer

Date: June 14, 2010

/s/Judith Wallace, CA, CPA, Msc, FCCA

Judith Wallace
Chief Financial Officer

DATED JUNE 1, 2010

CONSULTANCY AGREEMENT

between

CODA OCTOPUS GROUP, INC.

and

TAKTOS LIMITED

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THIS AGREEMENT is dated May 1, 2010

PARTIES

- (1) Coda Octopus Group, Inc. a Delaware corporation, ("Coda Octopus"), with a headquarters address of Newport Office Center I, 111 Town Square Place, Jersey City, Suite 1201, New Jersey 07310 (**Company**); and
- (2) Taktos Limited, a United Kingdom corporation, with an address at 3 Willow Walk, Englefield Green, Egham, Surrey TW20 0DQ (**Consultant Company**).

AGREED TERMS

1. INTERPRETATION

- 1.1 The definitions and rules of interpretation in this Clause apply in this Agreement (unless the context requires otherwise).

Board: the board of directors of the Company (including any committee of the board duly appointed by it).

Business: Any subsea visualization company or business (incorporated or unincorporated), or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Termination of this Agreement.

Business Opportunities: any opportunities which the Consultant Company or the Individual becomes aware of during the Engagement which relate to the business of any Group Company or which the Board reasonably considers might be of benefit to any Group Company.

Capacity: as agent, consultant, director, employee, owner, partner, shareholder or in any other capacity.

Commencement Date: November 1, 2009.

Confidential Information: information (whether or not recorded in documentary form, or stored on any magnetic or optical disk or memory) relating to the business, products, affairs and finances of any Group Company for the time being confidential to any Group Company and trade secrets including, without limitation, technical data and know-how relating to the business of any Group Company or any of their business contacts.

Convenience: termination of the Engagement by either party for any reason other than for material breach by the Company or a Good Reason Termination by the Company.

Engagement: the engagement of the Consultant Company by the Company on the terms of this Agreement.

Good Reason Termination: A termination of this Agreement for any of the reasons set forth in Clause 10.1 (a) through to (g) inclusive.

Group Company: the Company, any company of which it is a Subsidiary (its holding company) and any other Subsidiaries of the Company or any such holding company.

Individual: Geoff Turner

Intellectual Property Rights: patents, rights to Inventions, copyright and related rights, trademarks, trade names and domain names, rights in get-up, rights in goodwill or to sue for passing off, rights in designs, rights in computer software, database rights, rights in confidential information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications (or rights to apply) for, and renewals or extensions of, such rights and all similar or equivalent rights or forms of protection which may now or in the future subsist in any part of the world.

Invention: any invention, idea, discovery, development, improvement or innovation made by the Consultant Company or by the Individual in connection with the provision of the Services, whether or not patentable or capable of registration, and whether or not recorded in any medium.

Location: the headquarters of the Company at Commencement Date.

Pre-Contractual Statement: any undertaking, promise, assurance, statement, representation, warranty or understanding (whether in writing or not) of any person (whether party to this Agreement or not) relating to the Engagement other than as expressly set out in this Agreement or any documents referred to in it.

Restricted Business: any business which competes with the Business at the relevant point in time

Restricted Customer: any firm, company or person who, during the 6 months prior to Termination, was a customer of or in the habit of dealing with the Company or any Group Company with whom the Consultant or the Individual had contact or about whom he became aware or informed in the course of his engagement under this Agreement.

Restricted Person: anyone employed or engaged by the Company or any Group Company and who could materially damage the interests of the Company or any Group Company if they were involved in any Capacity in any business concern which competes with any Restricted Business and with whom the Consultant Company or Individual dealt in the twelve (12) months prior to Termination in the course of its or his Engagement.

Services: the services described in the Schedule.

Subsidiary: in relation to a company (a holding company) means a subsidiary (as defined in section 1159 of the Companies Act 2006) and any other company which is a subsidiary (as so defined) of a company which is itself a subsidiary of such holding company.

Termination Date: the date of termination of this Agreement howsoever arising.

Works: all records, reports, documents, papers, drawings, designs, transparencies, photos, graphics, logos, typographical arrangements, software programs, inventions, ideas, discoveries, developments, improvements or innovations and all materials embodying them in whatever form, including but not limited to hard copy and electronic form, prepared by the Consultant Company or the Individual in connection with the provision of the Services.

- 1.2 The headings in this Agreement are inserted for convenience only and shall not affect its construction.
- 1.3 A reference to a particular law is a reference to it as it is in force for the time being taking account of any amendment, extension, or re-enactment and includes any subordinate legislation for the time being in force made under it.
- 1.4 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.
- 1.5 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.6 The schedules to this Agreement form part of (and are incorporated into) this Agreement.

2. TERM OF ENGAGEMENT

- 2.1 The Company shall engage the Consultant Company and the Consultant Company shall make available to the Company the Individual to provide the Services on the terms of this Agreement.
- 2.2 The Engagement shall be deemed to have commenced on the Commencement Date and shall continue indefinitely until terminated by either party in accordance with the termination provisions set forth in Clause 10 of Agreement.
- 2.3 The Consultancy Agreement between the Company and Consultant Company entered into on or around November 1, 2006 shall be terminated on the Commencement Date of this Agreement.

3. DUTIES AND PLACE OF PERFORMANCE

- 3.1 During the Engagement the Consultant Company shall, and (where appropriate) shall procure that the Individual shall:

- (a) provide the Services with all due care, skill and ability and use its or his best endeavours to promote the interests of the Group and the companies within the Group.
 - (b) unless the Individual is prevented by ill health or accident, devote at least 160 hours in each calendar month to the carrying out of the Services together with such additional time if any as may be necessary for their proper performance;
 - (c) promptly give to the Board all such information and reports as it may reasonably require in connection with matters relating to the provision of the Services or the business of any Group Company.
- 3.2 The Consultant Company shall procure that, subject to Clause 5 (Expenses), the Individual provides a substantial part of the Services at the Location. During the term of the Agreement the Consultant Company shall be required to procure that the Services are provided at any place within 300 miles of the Location if required by the Board and subject to giving reasonable notice to the Consultant Company and bearing the reasonable costs of relocation.
- 3.3 If the Individual is unable to provide the Services due to illness or injury the Consultant Company shall advise the Company of that fact as soon as reasonably practicable and shall provide such evidence of the Individual's illness or injury as the Company may reasonably require.
- 3.4 The Consultant Company shall procure that the Individual is available at all times on reasonable notice to provide such assistance or information as the Company may require.
- 3.5 The Consultant Company shall, and shall procure that the Individual shall, comply with all reasonable standards of safety and comply with the Company's health and safety procedures from time to time in force at the premises where the Services are provided and report to the Company any unsafe working conditions or practices.
- 3.6 The Consultant Company undertakes to the Company that during the Engagement it shall, and shall procure that the Individual shall, take all reasonable steps to offer (or cause to be offered) to the Company any Business Opportunities as soon as practicable after the same shall have come to its or his knowledge and in any event before the same shall have been offered by the Consultant Company or the Individual (or caused by the Consultant Company or the Individual to be offered to) any other party provided that nothing in this Clause shall require the Consultant Company or the Individual to disclose any Business Opportunities to the Company if to do so would result in a breach by the Consultant Company or the Individual of any obligation of confidentiality or of any fiduciary duty owed by it or him to any other person, firm or company.

- 3.7 During the Engagement, the Individual shall be entitled to 30 days (in addition to the usual public holidays in Serbia) paid holiday in each holiday year.
- 3.8 The Individual shall not without the consent of the Board carry forward any accrued and unused holiday entitlement to a subsequent holiday year, nor receive any payment in lieu in respect of such entitlement.
- 3.9 On termination of the Engagement, the Consultant Company shall be entitled to be paid in lieu of accrued but untaken holiday by the Individual. The amount of the payment in lieu shall be calculated on the basis that each day of paid holiday is equal to 1/260 of the Fees payable in accordance with the terms of this Agreement.
- 3.10 If the Individual has taken more holiday than his accrued entitlement at the date of termination of the Engagement, the Company shall be entitled to deduct the appropriate amount from any payments due to the Consultant Company (on the basis that each day of paid holiday is equal to 1/260 of the Fees payable in accordance with the terms of this Agreement).
- 3.11 If either party has served notice to terminate the Engagement, the Company may require the Individual to take any accrued but unused holiday entitlement during the notice period.

4. FEES AND BENEFITS

- 4.1 In consideration of the provision of the Services, the Company shall within 5 days of receipt of an invoice submitted in accordance with Clause 4.5, pay to the Consultant Company a consultancy fee of \$20,833.33 (Fees) commencing from the Commencement Date exclusive of Value Added Tax (if applicable) per month. Such fee to be payable by bank transfer monthly. In addition to the Fees, the Company shall pay a car allowance of \$1,014 per month commencing November 1, 2009.
- 4.2 During the term of this Agreement, the Company shall provide health insurance for the Individual in accordance with its health insurance practice.
- 4.3 The Individual shall be entitled to participate in any bonus and/or incentive plan that the Board may approve for the management of the Company.
- 4.4 The Consultant Company shall within 5 days of the end of the calendar month submit to the Company an invoice for the Fees.
- 4.5 The Company shall be entitled to deduct from the Fees and/or any other sums due to the Consultant Company, any sums that the Consultant Company or the Individual may owe to any Group Company at any time.

5. EXPENSES

- 5.1 The Company shall reimburse (or procure the reimbursement of) all reasonable expenses properly and necessarily incurred by the Consultant Company or the Individual in the course of the Engagement, subject to production of receipts or other appropriate evidence of payment. All expenses must be submitted within three (3) months of the date at which they are incurred. At the expiry of three (3) months, these amounts shall be deemed not due by the Company.
- 5.2 The Company shall reimburse the Consultant Company for all out of pocket expenses including travel and accommodation expenses incurred by the Consultant Company or the Individual in performing the Services at the Location.
- 5.3 If the Individual is required to travel abroad in connection with the provision of the Services, the Company shall be responsible for any necessary insurances, inoculations and immigration requirements.

6. OTHER ACTIVITIES

Nothing in this Agreement shall prevent the Consultant Company or the Individual from being engaged, concerned or having any financial interest in any Capacity in any other business, trade, profession or occupation during the Engagement provided that:

- (a) such activity does not cause a breach of any of the Consultant Company's obligations under this Agreement; and
- (b) the Consultant Company shall not, and shall procure that the Individual shall not, engage in any such activity if it relates to a business which is similar to or in any way competitive with the Business of any Group Company without the prior written consent of the Board.

7. CONFIDENTIAL INFORMATION AND COMPANY PROPERTY

- 7.1 The Consultant Company acknowledges that in the course of the Engagement it and the Individual will have access to Confidential Information. The Consultant Company has therefore agreed to accept the restrictions in this Clause 7.
- 7.2 The Consultant Company shall not, and shall procure that the Individual shall not (except in the proper course of its or his duties) either during the Engagement or at any time after the Termination Date, use or disclose to any firm, person or company (and shall use its best endeavours and procure that the Individual shall use its best endeavours to prevent the publication or disclosure of) any Confidential Information. This restriction does not apply to:
- (a) any use or disclosure authorised by the Company or required by law; or

- (b) any information which is already in, or comes into, the public domain otherwise than through the Consultant Company's or the Individual's unauthorised disclosure.

7.3 All documents, manuals, hardware and software provided for the Individual's use by the Company, and any data or documents (including copies) produced, maintained or stored on the Company's computer systems or other electronic equipment (including mobile phones if provided by the Company), remain the property of the Company.

8. DATA PROTECTION

8.1 The Consultant Company shall procure that the Individual consents to the Company holding and processing data relating to him for legal, personnel, administrative and management purposes and in particular to the processing of any "sensitive personal data" (as defined in the Data Protection Act 1998) relating to the Individual.

8.2 The Consultant Company consents (and shall procure that the Individual consents) to the Company making such information available to any Group Company, those who provide products or services to the Company and any Group Company (such as advisers, regulatory authorities, governmental or quasi governmental organisations and potential purchasers of the Company or any part of its business.

8.3 The Consultant Company consents (and shall procure that the Individual consents) to the transfer of such information to the Company's and any Group Company's business contacts outside the European Economic Area in order to further their business interests.

9. INTELLECTUAL PROPERTY

9.1 The Consultant Company hereby assigns to the Company all existing and future Intellectual Property Rights in the Works and the Inventions and all materials embodying such rights to the fullest extent permitted by law. Insofar as they do not so vest automatically by operation of law or under this Agreement, the Consultant Company holds legal title in such rights and inventions on trust for the Company.

9.2 The Consultant Company undertakes to the Company:

- (a) to notify to the Company in writing full details of all Works and Inventions promptly on their creation;
- (b) to keep confidential the details of all Inventions;
- (c) whenever requested to do so by the Company and in any event on the termination of the Engagement, promptly to deliver to the Company all correspondence, documents, papers and records on all media (and all copies

or abstracts of them), recording or relating to any part of the Works and the process of their creation which are in his possession, custody or power;

- (d) not to register nor attempt to register any of the Intellectual Property Rights in the Works, nor any of the Inventions, unless requested to do so by the Company; and
- (e) to do all acts necessary to confirm that absolute title in all Intellectual Property Rights in the Works and the Inventions has passed, or will pass, to the Company,

and confirms that the Individual has given written undertakings in the same terms to the Consultant Company.

9.3 The Consultant Company warrants that:

- (a) it has not given and will not give permission to any third party to use any of the Works or the Inventions, nor any of the Intellectual Property Rights in the Works;
- (b) it is unaware of any use by any third party of any of the Works or Intellectual Property Rights in the Works; and
- (c) the use of the Works or the Intellectual Property Rights in the Works by the Company will not infringe the rights of any third party,

and confirms that the Individual has given written undertakings in the same terms to the Consultant Company.

9.4 The Consultant Company acknowledges that no further remuneration or compensation other than that provided for in this Agreement is or may become due to the Consultant Company in respect of the performance of its obligations under this Clause 9.

9.5 The Consultant Company undertakes to execute all documents, make all applications, give all assistance and do all acts and things, at the expense of the Company and at any time either during or after the Engagement, as may, in the opinion of the Board, be necessary or desirable to vest the Intellectual Property Rights in, and register or obtain patents or registered designs in, the name of the Company and otherwise to protect and maintain the Intellectual Property Rights in the Works. The Consultant Company confirms that the Individual has given written undertakings in the same terms to the Consultant Company.

9.6 The Consultant Company hereby irrevocably appoints the Company to be its attorney to execute and do any such instrument or thing and generally to use its name for the purpose of giving the Company or its nominee the benefit of this Clause 9 and acknowledges in favour of a third party that a certificate in writing signed by any

director or the secretary of the Company that any instrument or act falls within the authority conferred by this Clause 9 shall be conclusive evidence that such is the case.

10. TERMINATION

- 10.1 Notwithstanding the provisions of Clause 2.2, the Company may terminate the Engagement with immediate effect without notice and without any liability to pay any remuneration, compensation or damages (including those amounts set forth in Clause 10.3) if at any time:
- (a) the Consultant Company or the Individual is guilty of gross misconduct affecting the business of any Group Company; or
 - (b) the Individual is convicted of any criminal offence (other than an offence under any road traffic legislation in the United Kingdom, USA or elsewhere for which a fine or non-custodial penalty is imposed); or
 - (c) the Consultant Company or the Individual is in the reasonable opinion of the Board grossly negligent and incompetent in the performance of the Services; or
 - (d) the Consultant Company makes a resolution for its winding up, makes an arrangement or composition with its creditors or makes an application to a court of competent jurisdiction for protection from its creditors or an administration or winding-up order is made or an administrator or receiver is appointed in relation to the Consultant Company; or
 - (e) the Individual is incapacitated (including by reason of illness or accident) from providing the Services for an aggregate period of 132 working days in any 52 week consecutive period; or
 - (f) Failure of the Individual to perform the Services substantially at the Location.
 - (g) the Consultant Company or the Individual is in breach of the Company's Insider Dealing Policy or guilty of any fraud or dishonesty or acts in any manner which in the opinion of the Board brings or is likely to bring the Individual, the Consultant Company, or any Group Company into disrepute or is materially adverse to the interests of any Group Company.
- 10.2 The rights of the Company under Clause 10 are without prejudice to any other rights that it might have at law to terminate the Engagement or to accept any breach of this Agreement on the part of the Consultant Company as having brought the Agreement to an end. Any delay by the Company in exercising its rights to terminate shall not constitute a waiver thereof.
- 10.3 The Company may terminate this Agreement at any time for Convenience upon given three (3) months written notice to the Consultant Company.

- 10.4 The Company shall pay the Consultant Company a lump sum payment equal to 12 months Fees ("Severance Payment") where it terminates this Agreement for Convenience. The Severance Payment shall be paid to the Executive within 45 days following the Date of Termination and at the Company's discretion can be paid in two instalments within 45 days of the Date of Termination and subject to handing over all Company property and signing appropriate releases.
- 10.5 Regardless of the reason for any termination of this Agreement, the Consultant Company shall be entitled to: (i) any unpaid portion of Fees through the date of Termination unless otherwise provided herein; (ii) subject to clause 5.1, reimbursement for any outstanding reasonable expense the Consultant Company or the Individual has incurred hereunder; (iii) continued insurance benefits (if applicable at the time of termination) and to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus and/or other incentive pay or stock plan, or any other management incentive plan or program of Coda Octopus.
- 10.6 The Consultant Company may terminate the Engagement:
- (a) Where there has been a material breach of this Agreement by the Company and the said breach remain unremedied for at least 45 days.
 - (b) For Convenience. The Consultant Company shall give the Company six (6) months notice in writing where it proposes to terminate this Agreement for Convenience.

11. OBLIGATIONS UPON TERMINATION

On the Termination Date the Consultant Company shall, and shall procure that the Individual shall:

- (a) immediately deliver to the Company all documents, books, materials, records, correspondence, papers and information (on whatever media and wherever located) relating to the business or affairs of any Group Company or their business contacts, any keys, and any other property of any Group Company, which is in its or his possession or under its or his control;
- (b) irretrievably delete any information relating to the business of any Group Company stored on any magnetic or optical disk or memory and all matter derived from such sources which is in its or his possession or under its or his control outside the premises of the Company; and
- (c) provide a signed statement that it or he has complied fully with its or his obligations under this Clause 11.

12. STATUS

- 12.1 The relationship of the Consultant Company (and the Individual) to the Company will be that of independent contractor and nothing in this Agreement shall render it (nor the Individual) an employee, worker, agent or partner of the Company and the Consultant Company shall not hold itself out as such and shall procure that the Individual shall not hold himself out as such.
- 12.2 This Agreement constitutes a contract for the provision of services and not a contract of employment and accordingly the Consultant Company shall be fully responsible for and shall indemnify the Company or any Group Company for and in respect of payment of the following within the prescribed time limits:
- (a) any income tax, National Insurance and Social Security contributions and any other liability, deduction, contribution, assessment or claim arising from or made in connection with either the performance of the Services or any payment or benefit received by the individual (or their associates) in respect of the Services, where such recovery is not prohibited by law. The Consultant Company shall further indemnify the Company against all reasonable costs, expenses and any penalty, fine or interest incurred or payable by the Company in connection with or in consequence of any such liability, deduction, contribution, assessment or claim;
 - (b) any liability for any employment-related claim or any claim based on worker status (including reasonable costs and expenses) brought by the Individual or any Substitute against the Company arising out of or in connection with the provision of the Services, except where such claim is as a result of any act or omission of the Company.
- 12.3 The Company may at its option satisfy such indemnity (in whole or in part) by way of deduction from payments due to the Consultant Company or the Individual.

13. POST-TERMINATION RESTRICTIONS

- 13.1 In order to protect the Confidential Information, trade secrets and business connections of the Company and each Group Company to which the Consultant Company and/or Individual has access as a result of the Engagement, the Consultant Company covenants with the Company and shall procure that the Individual also enters into similar covenants benefiting the Company that neither the Consultant Company nor the Individual shall:
- (a) for 12 months after Termination solicit or endeavour to entice away from the Company or any Group Company the business or custom of a Restricted Customer with a view to providing goods or services to that Restricted Customer in competition with any Restricted Business; or

- (b) for 12 months after Termination in the course of any business concern which is in competition with any Restricted Business, offer to employ or engage or otherwise endeavour to entice away from the Company or any Group Company any Restricted Person; or
- (c) for 12 months after Termination, be involved in any Capacity with any business concern which is (or intends to be) in competition with any Restricted Business; or
- (d) for 12 months after Termination be involved with the provision of goods or services to (or otherwise have any business dealings with) any Restricted Customer in the course of any business concern which is in competition with any Restricted Business; or
- (e) at any time after Termination, represent himself as connected with the Company or any Group Company in any Capacity.

13.2 None of the restrictions in Clause 13 shall prevent the Consultant Company or the Individual from:

- (a) being engaged or concerned in any business concern insofar as the Consultant's duties or work shall relate solely to geographical areas where the business concern is not in competition with any Restricted Business; or
- (b) being engaged or concerned in any business concern, provided that the Consultant's duties or work shall relate solely to services or activities of a kind with which the Consultant Company or the Individual was not concerned to a material extent in the twelve (12) months prior to Termination.

13.3 The restrictions imposed on the Consultant Company and Individual by Clause 13.1 apply to either of them acting:

- (a) directly or indirectly including through legal or natural persons under his control or related to him; and
- (b) on his own behalf or on behalf of, or in conjunction with, any firm, company or person.

13.4 Each of the restrictions in this Clause 13 is intended to be separate and severable. If any of the restrictions shall be held to be void but would be valid if part of their wording were deleted, such restriction shall apply with such deletion as may be necessary to make it valid or effective.

14. NOTICES

14.1 Any notice given under this Agreement shall be in writing and signed by or on behalf of the party giving it and shall be served by delivering it personally, or sending it by pre-paid recorded delivery or registered post to the relevant party at its registered

office for the time being or by sending it by fax to the fax number notified by the relevant party to the other party. Any such notice shall be deemed to have been received:

- (a) if delivered personally, at the time of delivery;
- (b) in the case of pre-paid recorded delivery or registered post, 48 hours from the date of posting;
- (c) in the case of fax, at the time of transmission.

- 14.2 In proving such service it shall be sufficient to prove that the envelope containing such notice was addressed to the address of the relevant party and delivered either to that address or into the custody of the postal authorities as a pre-paid recorded delivery or registered post or that the notice was transmitted by fax to the fax number of the relevant party).

15. ENTIRE AGREEMENT AND PREVIOUS CONTRACTS

Each party on behalf of itself and (in the case of the Company, as agent for any Group Companies) acknowledges and agrees with the other party the Company acting on behalf of itself and as agent for each Group Company) that:

- (a) this Agreement together with any documents referred to in it constitute the entire Agreement and understanding between the Consultant Company and the Company and any Group Company and supersedes any previous Agreement between them relating to the Engagement (which shall be deemed to have been terminated by mutual consent);
- (b) in entering into this Agreement neither party nor any Group Company has relied on any Pre-Contractual Statement; and
- (c) the only remedy available to it for breach of this Agreement shall be for breach of contract under the terms of this Agreement and each party shall have no right of action against any other party in respect of any Pre-Contractual Statement. Nothing in this Agreement shall, however, operate to limit or exclude any liability for fraud.

16. VARIATION

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

17. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which, when executed, shall be an original, and all the counterparts together shall constitute one and the same instrument.

18. THIRD PARTY RIGHTS

The Contracts (Rights of Third Parties) Act 1999 shall not apply to this Agreement and no person other than the Consultant Company and the Company shall have any rights under it. The terms of this Agreement or any of them may be varied, amended or modified or this Agreement may be suspended, cancelled or terminated by Agreement in writing between the parties or this Agreement may be rescinded (in each case), without the consent of any third party.

19. GOVERNING LAW AND JURISDICTION

- 19.1 This Agreement and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with English law.

Schedule Services

The Individual performs the duties of the Chief Executive Officer of the Group.

The Individual reports to the Board and is responsible for:

Board Administration and Support – supports administration of Board by advising and informing Board members, interfacing between the Board and staff and supporting Board's evaluation of chief executive;

Program, Product and Service Delivery - oversees design, marketing, promotion, delivery and quality of programs, programs, products and services;

Financial, Tax and Risk: recommends yearly budget for Board approval and prudently manages Group's resources within those budget guidelines according to current laws and regulations;

Human Resources Management – effectively manages the human resources of the Group according to authorised personnel policies and procedures that fully conform to current laws and Regulations;

Community and Public Relations: Ensures the Group and its mission, programs, products and services are consistently presented in strong, positive image to relevant stakeholders;

Fundraising: oversees fundraising planning and implementation, including identifying resource requirements, researching funding sources, establishing strategies to approach funders, submitting proposals and administering fundraising records and documents;

Regulations: Ensures that the Group's business is conducted in accordance with applicable laws, rules and regulations;

The day to day operation of the business and implement the strategic goals and objectives of the Group;


With the chair, enable the Board to fulfil its governance function;

Provide entrepreneurial leadership of the Group within the framework of prudent and effective controls which enable risk to be assessed and managed;

Set with the Board the Group's strategic aims ensure that the necessary financial and human resources are in place for the Group to meet its objectives and review management performance; and

Set with the Board the Group's values and standards and ensure that its obligations to its shareholders and others are understood and met.

Executed by Coda Octopus Group
acting by Judith Wallace, Chief
Financial Officer and Director


.....
Signature and Date

Executed by Taktos Limited acting by
Geoff Turner


.....
Signature and Date

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of May 2010, by Coda Octopus Group, Inc., a Delaware corporation (Coda Octopus Group, Inc. and its subsidiaries hereinafter referred to as "Coda Octopus"), with its principal place of business at Newport Office Center, 111 Town Square Place, Jersey City, Suite 1201, New Jersey, NJ 07310 and Judith Wallace Johnson, residing at 7237 Redfox Road, Mississauga, Ontario L4T 2L9 (the "Executive") (collectively the "Parties").

WHEREAS, the Parties desire to enter into the Agreement to reflect the Executive's executive capacities in Coda Octopus' business and to provide for Coda Octopus's employment of the Executive; and

WHEREAS, the Parties wish to set forth the terms and conditions of that employment;

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, the Parties agree as follows:

1. **Term of Employment**

The Company shall employ the Executive and the Executive shall serve the Company on the terms of this Agreement ("**Appointment**"). The Appointment shall commence on May 1, 2010 and, subject to the remaining terms of this Agreement shall be for an initial fixed term of twelve (12) months (Initial Fixed Term) and shall continue thereafter unless or until terminated by either party giving the other not less than three (3) months notice in writing.

2. **Duties**

The Executive shall serve the Company as Chief Financial Officer. The broad terms of the role description for the Appointment are set forth in Appendix A hereto. Notwithstanding any matter contained in Appendix A, the Executive shall perform all duties as are consistent with this office and such other duties that the Company or the Board may reasonably assign to her from time to time.

3. **Services**

- (a) Unless otherwise agreed, the Executive will not engage in the management of any business activities during the Employment Period except those which are for the sole benefit of Coda Octopus and to devote her entire business time, attention, skill and effort to the performance of her duties under this Agreement. Notwithstanding the foregoing, the Executive may, without impairing or otherwise adversely affecting the Executive's performance of her duties to Coda Octopus, (i) make and manage personal investments in accordance with the Company's Personal Securities Account Information Sheet in place at the time and (ii) with the Executive's prior notification of Coda Octopus, engage in charitable, professional and civic activities and serve on the boards of directors of corporations other than Coda Octopus, provided that in no event shall the Executive be permitted to serve on the board of directors of any other entity that owns, operates, acquires, sells, develops and/or manages any companies which is involved in sub sea or sonar inspection or visualization.
- (b) For the first six (6) months of this Agreement the Executive shall perform the services substantially from her home office in Canada and during this period the Executive shall

make herself familiar with each of the subsidiaries of the Company (UK, USA and Norway) and shall attend business meetings at the Company's headquarters not less than two (2) weeks in each of the six months. The Company shall use its best endeavor after the six months to make the pertinent applications to secure the necessary work permit to enable the Executive to take up the position within the USA.

4. Compensation and Benefits

- (a) Salary. Coda Octopus shall pay the Executive an initial gross base annual salary ("Base Salary") of \$200,000. The Base Salary shall be payable (minus such deductions as may be required by law or reasonably requested by the Executive) in accordance with Coda Octopus's regularly scheduled payroll dates but in no event less frequently than monthly. If the Executive is an Officer of the parent company, Coda Octopus's Compensation Committee (the "Compensation Committee"), or alternatively Coda Octopus, shall review the Executive's Base Salary annually and may increase (but not decrease) the Executive's Base Salary as in effect from time to time as the Compensation Committee shall deem appropriate.
- (b) Incentive and Bonus Plan. The Executive shall be entitled to participate in any incentive and/or bonus plan which the Board may approve for its management.
- (c) Paid Time Off and Other Benefits. The Executive shall be entitled to paid time off for a maximum of 30 business days each calendar year, which shall be accrued ratably during the calendar year, as well as holiday pay in accordance with Coda Octopus's policies in effect from time to time as set forth in its employment handbook as the same may be modified from time to time. In addition, the Executive shall be entitled to local Public Holidays as stipulated in Coda Octopus's employment handbook as the same may be modified from time to time. The Executive shall be eligible to participate in such life, health, and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits as Coda Octopus extends, as a matter of policy, to its executive employees. Coda Octopus shall maintain a disability insurance policy or plan covering the Executive during the Employment Period.
- (d) Reimbursement of Business Expenses. Coda Octopus shall reimburse the Executive for all reasonable expenses incurred or paid by the Executive in connection with, or related to, the performance of her duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request. The Executive shall submit her claim for reimbursement within 30 days of incurring such expenses. Coda Octopus shall be deemed not to owe these amounts unless the Executive submits her claim within three (3) months of the date the expense was incurred by the Executive.
- (e) Car Allowance, Flight Allowance and Relocation Allowance. Coda Octopus shall reimburse the Executive up to \$850 per month in lieu of specific reimbursement expenses for use of a personal vehicle or the provision of a vehicle. Coda Octopus shall reimburse the Executive for one economy return flight ticket per calendar month to Canada for a maximum period of 12 months or until the Executive's relocation to the location of the business, whichever occurs sooner. In addition, Coda Octopus shall reimburse the Executive for up to \$15,000 for relocation to the place of business of the Company upon presentation by the Executive of documentation, expense statements, vouchers, and/or such other supporting information as Coda Octopus may reasonably request.

- (g) Health Insurance: Coda Octopus shall provide health insurance on the usual terms and conditions at the date of this Agreement.
- (h) D&O Insurance Coverage: Subject to the terms of Coda Octopus' directors and officers liability insurance policy, during and for a period of a maximum of three years after termination, the Executive shall be entitled to director and officer insurance coverage for her acts and omissions while an officer and director of Coda Octopus on a basis no less favorable to her than the coverage provided to current officers and directors.

5. Termination

- (a) During the first twelve months of this Employment Agreement Coda Octopus may only terminate the Employment Agreement for Cause. For the purposes of this Agreement 'Cause' shall mean a determination by Coda Octopus in good faith that any of the following events have occurred: (i) fraud, misappropriation or embezzlement by the Executive; (ii) any act or omission of the Executive that has a demonstrated and material adverse impact on Coda Octopus's reputation for honesty and fair dealings; (iii) material breach of the terms of this Agreement and which shall include failure to use reasonable endeavors to cause the Company to file the next two 10-Q quarterly reports within the time and deadlines required by the Securities Exchange Commission and implementing the elements of 'Coda Octopus Group Inc Control Review' document agreed with Coda Octopus; (iv) material violation by the Executive of Coda Octopus's policies which continues for more than 15 days following written notice of such violation from Coda Octopus.

Termination by Coda Octopus. After the expiry of the first 12 months, Coda Octopus may terminate the Executive's employment under this Agreement at any time upon 90 days' prior written notice to the Executive subject to making the severance payments provided for in Section 6 of this Agreement and *provided that* Coda Octopus may terminate the Executive's employment under this Agreement at any time for Cause, upon written notice by Coda Octopus to the Executive.

- (b) Termination by the Executive without Good Reason. The Executive may terminate this Agreement at any time without Good Reason, upon giving Coda Octopus 90 days' written notice. In the event that the Executive terminates pursuant to this Clause, Coda Octopus may in its sole discretion substitute 90 days' salary in lieu of notice. Any salary paid to the Executive in lieu of notice shall not be offset against any entitlement the Executive may have to the Severance Payment pursuant to Section 6(b).
- (c) Termination by Executive for Good Reason. The Executive may terminate her employment under this Agreement at any time for Good Reason, upon written notice by the Executive to Coda Octopus. For purposes of this Agreement, "Good Reason" for termination shall mean that the Executive has complied with the "Good Reason Process" (hereafter defined) following the occurrence of one of the following events, without the Executive's consent: (i) the assignment to the Executive of substantial duties or responsibilities inconsistent with the Executive's position at Coda Octopus, or any other action by Coda Octopus which results in a substantial diminution or other substantive adverse change in the Executive's duties or responsibilities, including, but not limited to, a substantial diminution in the Executive's title as set forth in Section 2 hereof; (ii) a requirement that the Executive work principally from a location that would require her to do more than 4 hours daily commuting in total without prior agreement with the Executive and subject to paying the Executive's relocation costs; (iii) Coda Octopus's failure to pay the Executive any Base Salary or other compensation to which she becomes entitled, other than an inadvertent failure which is remedied by Coda Octopus within 30 days after

receipt of written notice thereof from the Executive (or ten days for failure to pay Base Salary); (iv) any reduction in the Executive's aggregate Base Salary and any involuntary reduction in the Executive's other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (v) Coda Octopus's material breach of any of its other material obligations under this Agreement. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies Coda Octopus in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with Coda Octopus's efforts, for a period not less than 30 days following such notice, to modify the Executive's employment situation in a manner acceptable to the Executive and Coda Octopus; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to the Executive. If Coda Octopus cures the Good Reason event in a manner acceptable to the Executive during the 30 day period, Good Reason shall be deemed not to have occurred.

- (d) Executive's Death or Disability. The Executive's employment shall terminate immediately upon her death or, upon written notice as set forth below, her Disability. As used in this Agreement, "Disability" shall mean such physical or mental impairment as would render the Executive eligible to receive benefits under the long-term disability insurance policy or plan then made available by Coda Octopus to the Executive. If the Employment Period is terminated by reason of the Executive's Disability, either party shall give 30 days' advance written notice to that effect to the other.
- (e) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by her death, the date of her death; (B) if Executive's employment is terminated on account of disability under Section 5(d), 90 days after the date on which a notice of termination is given; (C) if Executive's employment is terminated by Coda Octopus for Cause under Section 5(a), the date on which notice of termination is given; (D) if Executive's employment is terminated under Section 5(b), 90 days after the date on which a notice of termination is given; and (E) if Executive's employment is terminated by Executive under Section 5(c), 30 days after the date on which a notice of Good Reason is given.

6. **Effect of Termination**

- (a) General. Regardless of the reason for any termination of this Agreement, the Executive (or the Executive's estate if the Employment Period ends on account of the Executive's death) shall be entitled to: (i) any unpaid portion of her Base Salary through the Date of Termination unless otherwise stated below; (ii) reimbursement for any outstanding reasonable expense she has incurred hereunder; (iii) continued insurance benefits to the extent required by law; (iv) payment of any vested but unpaid rights as required independent of this Agreement by the terms of any bonus or other incentive pay or stock plan, or any other employee benefit plan or program of Coda Octopus; and (v) except in the case of "Termination by Coda Octopus for Cause," any bonus or incentive compensation that was approved but not paid. The amount payable under this Section 6(a) shall be paid to the Executive or the Executive's estate (in the event of the Executive's death) in a single lump sum no later than 30 days after the Date of Termination.
- (b) Termination by Coda Octopus for Cause or by Executive without Good Reason. If Coda Octopus terminates the Executive's employment for Cause or the Executive terminates her employment without Good Reason, the Executive shall have no rights or claims

against Coda Octopus except to receive the payments and benefits described in Section 6(a). Coda Octopus shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of Coda Octopus in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

- (c) Termination by Coda Octopus without Cause or by Executive for Good Reason. Except as provided in Section 6(d), if Coda Octopus terminates the Executive's employment without Cause, or the Executive terminates her employment for Good Reason pursuant to Section 5(c), the Executive shall be entitled to receive, in addition to the items referenced in Section 6(a), the following:
- (i) In the event of termination during the Initial Fixed Term, a lump sum payment equal to the Executive's current Base Salary.
 - (ii) In the event of termination after the expiry of the Initial Fixed Term, a lump sum payment equal to one-half of the Executive's then current Base Salary.
 - (iii) The severance payment provided for in c (i) and (ii) above shall be paid to the Executive within 60 days following the Date of Termination;
 - (iv) continued payment by Coda Octopus for life, health and disability insurance coverage and other benefits for the Executive and the Executive's spouse and dependents for one year following the Date of Termination to the same extent that Coda Octopus paid for such coverage immediately prior to the termination of the Executive's employment and subject to the eligibility requirements and other terms and conditions of such insurance coverage, provided that if any such insurance coverage shall become unavailable during the one year period, Coda Octopus thereafter shall be obliged only to pay to the Executive an amount which, after reduction for income and employment taxes, is equal to the employer premiums for such insurance for the remainder of such severance period; and
 - (v) any unvested rights accrued under any bonus and/or management incentive plan.

None of the benefits described in this Section 6(c) will be payable unless the Executive has signed a general release which has become irrevocable, satisfactory to Coda Octopus in the reasonable exercise of its discretion, releasing Coda Octopus, its affiliates including Coda Octopus, and their officers, directors and employees, from any and all claims or potential claims arising from or related to the Executive's employment or termination of employment.

- (d) Termination In the Event of Death or Disability.
- (i) If the Executive's employment terminates because of her death, any unvested portion of any stock option and any restricted stock previously issued to the Executive by Coda Octopus shall become fully vested as of the date of her death and the Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock

options granted to the Executive. In addition, the Executive's estate shall be entitled to receive a pro-rata share of any performance bonus to which she otherwise would have been entitled for the fiscal year in which her death occurs. For a period of one (1) year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge Coda Octopus's obligations hereunder.

- (ii) In the event the Executive's employment terminates due to her Disability, as defined in any long-term disability insurance policy or plan provided to her by Coda Octopus ("Disability Insurance"), she shall be entitled to receive her Base Salary until such date as she shall commence receiving disability benefits pursuant to any Disability Insurance. In addition, as of the effective date of the termination notice specified in Section 5(d), the Executive shall vest in any unvested portion of any stock option and any restricted shares previously granted to her by Coda Octopus and the Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to the Executive. The Executive also shall be entitled to receive a pro-rata share of any performance bonus to which she otherwise would have been entitled for the fiscal year in which her employment terminates due to her Disability. For a period of one year following the Date of Termination, Coda Octopus shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination.

7. Confidentiality

- (a) Definition of Proprietary Information. The Executive acknowledges that she may be furnished or may otherwise receive or have access to confidential information which relates to Coda Octopus's past, present or future business activities, strategies, services or products, research and development, specifically all formulas, processes, computer code, customer lists, computer user identifiers and passwords, and all purchasing, engineering, accounting, marketing and other information, proprietary to Coda Octopus and not generally known, relating to research, development, manufacture, marketing and sale of Coda Octopus products, as well as formulas, computer code, processes and other information received by Coda Octopus from third parties under an obligation of secrecy.

All such information, including any materials or documents containing such information, shall be considered by Coda Octopus and the Executive as proprietary and confidential (the "Proprietary Information").

- (b) Definition of Inventions. Invention(s) means all formulas, processes, discoveries, improvements, ideas and works of authorship, whether patentable or copyrightable or not, which the Executive learns, has access to, has a part in developing, first conceives or first reduces to practice, alone or with others (1) that are developed on Coda Octopus time, or (2) that relate directly to Coda Octopus' business or actual or anticipated research, or (3) for which Coda Octopus' Proprietary Information or other Coda Octopus property is sued, or (4) that result from any of the Executive's work for Coda Octopus.

Executive's Obligation With Regard to Inventions.

(A) All Inventions that the Executive may learn, have access to, have a part in developing, first conceive, or first reduce to practice (i) during employment with Coda Octopus, whether or not during normal work time or at Coda Octopus' premises, or (ii) at any time after employment termination if based on Confidential Information, are and shall remain the sole property of Coda Octopus in all countries, and shall be promptly disclosed to and are hereby assigned to Coda Octopus without charge to Coda Octopus. In the absence of clear and convincing proof to the contrary, all formulas, processes, inventions, ideas, and works of authorship conceived by the Executive within one year after termination of employment with Coda Octopus that directly relate to Coda Octopus business or demonstrably anticipated research or development will be considered to be Inventions to be disclosed to and owned by Coda Octopus.

(B) The Executive will acknowledge and deliver promptly without charge all documents to Coda Octopus, and to do such other acts as may be necessary in Coda Octopus' opinion to obtain and maintain patents or copyrights and to vest the entire right and title in Coda Octopus to such patents, copyrights and Inventions in all countries including, if required by Coda Octopus but not limited to, completion and signing of the Assignment exhibited as Appendix B to this Agreement. Failure on the part of Coda Octopus at any time to require the Executive to sell, assign, transfer and set over the entire right, title and interest in and to said Inventions shall not be deemed to be a waiver of its rights thereto.

(C) The obligations of this section shall not apply to any invention developed entirely on the Executive's own time without the use of any Coda Octopus equipment, supplies, facility or Proprietary Information and (i) which does not relate to Coda Octopus business, or to Coda Octopus' actual or demonstrably anticipated research or development or (ii) which does not result from any work performed by the Executive for Coda Octopus.

- (c) Exclusions. Notwithstanding the foregoing, Proprietary Information shall not include information in the public domain provided it is not a result of a breach of any duty by the Executive or any other person.
- (d) Obligations. Both during and after the Employment Period, the Executive will preserve and protect the confidentiality of the Proprietary Information and all physical forms thereof, whether disclosed to her before this Agreement and Inventions signed or afterward (except as required by applicable law or otherwise as necessary in connection with the performance of the Executive's duties to Coda Octopus hereunder). In addition, the Executive shall not (i) disclose or disseminate the Proprietary Information to any third party, including employees of Coda Octopus (or their affiliates) without a legitimate business need to know; (ii) remove the Proprietary Information from Coda Octopus's premises without a valid business purpose; or (iii) use the Proprietary Information for her own benefit or for the benefit of any third party.
- (e) Return of Proprietary Information. The Executive acknowledges that all the Proprietary Information and Inventions used or generated during the course of working for Coda Octopus is the property of Coda Octopus. The Executive will deliver to Coda Octopus all documents and other tangibles (including diskettes and other storage media) containing the Proprietary Information and Inventions at any time upon request by Coda Octopus during her employment and immediately upon termination of her employment. If requested by Coda Octopus, the Executive will enter into an Assignment of Intellectual Property.

8. **Noncompetition and Nonsolicitation**

- (a) Restriction on Competition. Throughout the Employment Period and for a further period of twelve (12) months thereafter (the "Restricted Period"), provided, however, that the

Restricted Period shall only extend for six months following the expiration or termination of the Executive's employment if the Executive's employment is terminated following a Change in Control, the Executive will not engage, directly or indirectly, as an owner, director, trustee, manager, member, employee, consultant, partner, principal, agent, representative, stockholder, or in any other individual, corporate or representative capacity, in any of the following: (i) any subsea visualization company, or (ii) any other business in which Coda Octopus is engaged or is actively planning to engage as of the date of the Executive's termination of employment. Notwithstanding the foregoing, the Executive shall not be deemed to have violated this Section 8(a) solely by reason of her passive ownership of 1% or less of the outstanding stock of any publicly traded corporation or other entity.

- (b) Non-Solicitation of Clients. During the Restricted Period, the Executive will not solicit, directly or indirectly, on her own behalf or on behalf of any other person(s), any client of Coda Octopus whom Coda Octopus had provided services at any time during the Executive's employment with Coda Octopus in any line of business that Coda Octopus conducts as of the date of the Executive's termination of employment or that Coda Octopus is actively soliciting, for the purpose of marketing or providing any service competitive with any service then offered by Coda Octopus. (c) Non-Solicitation of Employees. During the Restricted Period, the Executive will not, directly or indirectly, hire or attempt to hire or cause any business, other than a Qualified Affiliate, to hire any person who is then or was at any time during the preceding six months an employee of Coda Octopus and who is at the time of such hire or attempted hire, or was at the date of such employee's separation from Coda Octopus a vice president, senior vice president or executive vice president or other senior executive employee of Coda Octopus.
- (d) Acknowledgment. The Executive acknowledges that she will acquire much Proprietary Information concerning the past, present and future business of Coda Octopus as the result of her employment, as well as access to the relationships between Coda Octopus and Coda Octopus and their clients and employees. The Executive further acknowledges that the business of Coda Octopus is very competitive and that competition by her in that business during her employment, or after her employment terminates, would severely injure Coda Octopus. The Executive understands that the restrictions contained in this Section 8 are reasonable and are required for Coda Octopus's legitimate protection, and do not unduly limit her ability to earn a livelihood.
- (e) Rights and Remedies upon Breach. The Executive acknowledges that any breach by her of any of the provisions of Sections 7 and 8 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of the Restrictive Covenants, Coda Octopus shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Coda Octopus under law or in equity (including, without limitation, the recovery of damages):
 - (i) The right and remedy to have the Restrictive Covenants specifically enforced (without posting bond and without the need to prove damages) by any court of competent jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants; and

- (ii) The right and remedy to require the Executive to account for and pay over to Coda Octopus and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by her as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to Coda Octopus and, if applicable, its affected affiliates.
- (f) If any court or other decision-maker of competent jurisdiction determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of such provision, then, after such determination has become final and non-appealable, the duration or scope of such provision, as the case may be, shall be reduced so that such provision becomes enforceable and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. Executive Representation

The Executive represents and warrants to Coda Octopus that she is not now under any obligation of a contractual or other nature to any person, business or other entity which is inconsistent or in conflict with this Agreement or which would prevent her from performing her obligations under this Agreement.

10. Enforcement and Indemnification

- (a) Coda Octopus, in its sole discretion, may bring an action in any court of competent jurisdiction to seek injunctive relief and such other relief as Coda Octopus shall elect to enforce the Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of breadth of scope or otherwise it is the intention of Coda Octopus and the Executive that such determination not bar or in any way affect Coda Octopus's right, or the right of any of its affiliates, to the relief provided in Section 8(e) above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable, diverse and independent covenants, subject, where appropriate, to the doctrine of res judicata. The parties hereby agree to waive right to a trial by jury for any and all disputes hereunder (whether or not relating to the Restrictive Covenants).
- (b) In accordance with Appendix C to this Agreement, Coda Octopus will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive, including the cost of legal counsel selected and retained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being or having been an officer, director, or employee of Coda Octopus or any subsidiary or affiliate of Coda Octopus. Coda Octopus will pay to the Executive in advance of the final disposition of any proceeding all such amounts incurred or suffered.

11. Miscellaneous

- (a) Litigation and Regulatory Cooperation. During and after Executive's employment, Executive shall reasonably cooperate with Coda Octopus in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of Coda Octopus which relate to events or occurrences that transpired while Executive was employed by Coda Octopus; provided, however, that such cooperation

shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of Coda Octopus at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with Coda Octopus in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by Coda Octopus. Coda Octopus shall also provide Executive with compensation on an hourly basis (to be derived from the sum of her Base Salary and average annual incentive compensation) for requested litigation and regulatory cooperation that occurs after her termination of employment, and reimburse Executive for all costs and expenses incurred in connection with her performance under this Section 11(a), including, but not limited to, reasonable attorneys' fees and costs.

- (b) Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective (i) upon personal delivery, (ii) upon deposit with the United States Postal Service, by registered or certified mail, postage prepaid, or (iii) in the case of facsimile transmission or delivery by nationally recognized overnight delivery service, when received, addressed as follows:

- (i) **If to Coda Octopus, to:**

Coda Octopus Group, Inc.
Newport Office Center
111 Town Square Place
Suite 1201
Jersey City
New Jersey
NJ 07310

- (ii) **If to the Executive, to:**

Judith Wallace Johnson,
7237 Redfox Road
Mississauga
Ontario L4T 2L9
Canada

or to such other address or addresses as either party shall designate to the other in writing from time to time.

- (c) Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.
- (d) Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.
- (e) Amendment. This Agreement may be amended or modified only by a written instrument executed by both Coda Octopus and the Executive.

- (f) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of New Jersey, without regard to its conflicts of laws principles.
- (g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any entity with which or into which Coda Octopus may be merged or which may succeed to its assets or business or any entity to which Coda Octopus may assign its rights and obligations under this Agreement; provided, however, that the obligations of the Executive are personal and shall not be assigned or delegated by her.
- (h) Waiver. No delays or omission by Coda Octopus or the Executive in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by Coda Octopus or the Executive on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.
- (i) Captions. The captions appearing in this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.
- (j) Severability. In case any provision of this Agreement shall be held by a court with jurisdiction over the parties to this Agreement to be invalid, illegal or otherwise unenforceable, such provision shall be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law, and the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.
- (k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

By: 

Name: Geoffrey Turner

Title: Chief Executive Officer and Director

EXECUTIVE


Judith Wallace

APPENDIX A

Role Description

The Chief Financial Officer reports to the Chief Executive Officer (CEO) and the Board;

The Chief Financial Officer takes responsibility for the Company's accounting practices including accounting departments, preparing budgets, financial reports, tax and audit functions;

The Chief Financial Officer is responsible for proposing a new structure for financing functions of the business which achieves greater control and efficiencies through the central management of these functions. The Chief Financial Officer in this revised structure manages these functions;

The Chief Financial Officer works with the CEO to direct financial strategy, the setting and reviewing of budgets and planning and forecasting for the businesses and conferring and business leaders in each of the subsidiaries on these matters;

In conjunction with the Chief Executive Officer and the Board, the Chief Financial Officer supervises investments and raising of funds for the business;

The Chief Financial Officer analyzes and reports on trends, opportunities for expansion and projections;

The Chief Financial Officer takes responsibility for the Company's financial reporting and for its quarterly and annual filings with the Securities Exchange Commission;

The Chief Financial Officer is responsible to ensure that the Control Environment of the business is improved and addresses the material weakness reported by the Company to date and implement the recommendations of the review recently undertaken by the Company.

APPENDIX B

ASSIGNMENT

WHEREAS, _____, hereinafter called "Assignor", residing at _____, has certain new and useful formulas, processes, discoveries, improvements, ideas and works of authorship ("Inventions") disclosed in an application for United States and other Letters Patent entitled _____, and executed by _____ on date herewith;

AND WHEREAS Coda Octopus Group, Inc., located at Newport Office Center, 111 Town Square Place, Suite 1201, Jersey City, New Jersey, NNJ 07310 or a subsidiary thereof, together with any successors, legal representatives or assigns thereof, called "Assignee" wants to acquire the entire right, title and interest in and to said Inventions and application.

NOW, THEREFORE, in consideration of the entering into an Employment Contract with Assignee dated _____ and other good and valuable consideration, the receipt of which is hereby acknowledged, the Assignor has sold, assigned, transferred and set over, and does hereby sell, assign, transfer and set over to Assignee the entire right, title and interest in and to said Inventions, and said application and all divisions and continuations thereof, and all United States Letters Patents which may be granted thereon and all reissues, reexaminations and extensions thereof, and all priority rights under all available International Agreements, Treaties and Conventions for the protection of Intellectual property in its various forms in every participating country, and all applications for patents (including related rights such as utility-model registrations, inventor's certificates, and the like) heretofore or hereafter filed for said Inventions in any foreign countries, and all patents (including all continuations, divisions, extensions, renewals, substitutes, and reissues thereof) granted for said Inventions in any foreign countries; and the Assignor hereby authorizes and requests the United States Commissioner of Patents and Trademarks, and any officials of foreign countries whose duty it is to issue patents on applications as aforesaid, to Issue all patents for said Inventions to Assignee in accordance with the terms of this Assignment;

AND THE ASSIGNOR HEREBY covenants that she has full right to convey the entire Interest herein assigned, and that she has not executed, and will not execute, any agreement in conflict herewith;

AND THE ASSIGNOR HEREBY further covenants and agrees that she will communicate to Assignee any facts known to her respecting said Inventions, and testify in any legal proceeding, sign all lawful papers, execute all divisional, continuation, substitute and reissue applications, make all rightful oaths and generally do everything possible to aid Assignee to obtain and enforce proper patent protection for said Inventions in all countries.

In testimony whereof, I hereunto set my hand this ____ day of _____ 20____

SIGNATURE OF ASSIGNOR

STATE OF _____
COUNTY OF _____

On _____ before me _____ Notary Public,
personally appeared _____ personally known to me (or proved
to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the
within instrument and acknowledged to me that she executed the same in her authorized
capacity, and that by her signature on the instrument the person, or the entity upon behalf of
which the person acted, executed the Instrument.

WITNESS my hand and official seal.

Signature of Notary

APPENDIX C

INDEMNITY AGREEMENT

This Agreement is made as of the 1st day of April 2005, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Corporation"), and Judith Wallace Johnstone (the "Indemnitee"), a Director and/or Officer of the Corporation (collectively the "Parties").

WHEREAS, it is essential to the Corporation to retain and attract as Directors and Officers the most capable persons available, and

WHEREAS, the substantial increase in corporate litigation subjects Directors and Officers to expensive litigation risks at the same time that the availability of Directors' and Officers' liability insurance has been severely limited, and

WHEREAS, it is now and has always been the express policy of the Corporation to indemnify its Directors and Officers so as to provide them with the maximum possible protection permitted by law, and

WHEREAS, the Corporation does not regard the protection available to Indemnitee as adequate in the present circumstances, and realizes that Indemnitee may not be willing to serve as a Director and/or Officer without adequate protection, and the Corporation desires Indemnitee to serve in such capacity;

NOW, THEREFORE, in consideration of Indemnitee's service as a Director and/or Officer after the date hereof, the Parties agree as follows:

1. *Definitions.* As used in this Agreement:
 - (a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature.
 - (b) The term "Expenses" shall include, but is not limited to, expenses of investigations, judicial or administrative proceedings or appeals, damages, judgments, fines, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under this Agreement.
 - (c) The terms "Director" and "Officer" shall include Indemnitee's service at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise as well as a Director and/or Officer of the Corporation.
2. *Indemnity of Director or Officer.* Subject only to the limitations set forth in Section 3, Corporation will pay on behalf of the Indemnitee all Expenses actually and reasonably incurred by Indemnitee because of any claim or claims made against her in a Proceeding by reason of the fact that she is or was a Director and/or Officer of the Corporation or any of its subsidiaries.
3. *Limitations on Indemnity.* Corporation shall not be obligated under this Agreement to make any payment of Expenses to the Indemnitee,
 - (a) which payment it is prohibited by applicable law from paying as indemnity;

- (b) for which payment is actually made to the Indemnatee under an insurance policy, except in respect of any excess beyond the amount of payment under such insurance;
- (c) for which payment the Indemnatee is indemnified by Corporation otherwise than pursuant to this Agreement;
- (d) resulting from a claim decided in a Proceeding adversely to the Indemnatee based upon or attributable to the Indemnatee gaining in fact any personal profit or advantage to which she was not legally entitled;
- (e) resulting from a claim decided in a Proceeding adversely to the Indemnatee for an accounting of profits made from the purchase or sale by the Indemnatee of securities of Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law; or
- (f) brought about or contributed to by the dishonesty of the Indemnatee seeking payment hereunder; however, notwithstanding the foregoing, the Indemnatee shall be indemnified under this Agreement as to any claims upon which suit may be brought against her by reason of any alleged dishonesty on her part, unless it shall be decided in a Proceeding that she committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated.

For purposes of Sections 3 and 4, the phrase "decided in a Proceeding" shall mean a decision by a court, arbitrator(s), hearing officer or other judicial agent having the requisite legal authority to make such a decision, which decision has become final and from which no appeal or other review proceeding is permissible.

- 4. *Advance Payment of Costs.* Expenses incurred by Indemnatee in defending a claim against her in a Proceeding shall be paid by the Corporation as incurred and in advance of the final disposition of such Proceeding; provided, however, that Expenses of defense need not be paid as incurred and in advance where the judicial agent of first impression has decided the Indemnatee is not entitled to be indemnified pursuant to this Agreement or otherwise. Indemnatee hereby agrees and undertakes to repay such amounts advanced if it shall be decided in a Proceeding that she is not entitled to be indemnified by the Corporation pursuant to this Agreement or otherwise.
- 5. *Enforcement.* If a claim under this Agreement is not paid by Corporation, or on its behalf, within thirty days after a written claim has been received by Corporation, the Indemnatee may at any time thereafter bring suit against Corporation to recover the unpaid amount of the claim and if successful in whole or in part, the Indemnatee shall also be entitled to be paid the Expenses of prosecuting such claim.
- 6. *Subrogation.* In the event of payment under this Agreement, Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnatee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable Corporation effectively to bring suit to enforce such rights.
- 7. *Notice.* The Indemnatee, as a condition precedent to her right to be indemnified under this Agreement, shall give to Corporation notice in writing as soon as practicable of any claim made against her for which indemnity will or could be sought under this Agreement. Notice to Corporation shall be given at its principal office and shall be directed to the

Corporate Secretary (or such other address as Corporation shall designate in writing to the Indemnitee); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Indemnitee shall give Corporation such information and cooperation as it may reasonably require.

8. *Saving Clause.* If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the Corporation shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any other applicable law.
9. *Indemnification Hereunder Not Exclusive.* Nothing herein shall be deemed to diminish or otherwise restrict the Indemnitee's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.
10. *Applicable Law.* This Agreement shall be governed by and construed in accordance with internal laws of the State of Delaware.
11. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall constitute the original.
12. *Successors and Assigns.* This Agreement shall be binding upon the Corporation and its successors and assigns.
13. *Continuation of Indemnification.* The indemnification under this Agreement shall continue as to Indemnitee even though she may have ceased to be a Director and/or Officer and shall inure to the benefit of the heirs and personal representatives of Indemnitee.
14. *Coverage of Indemnification.* The indemnification under this Agreement shall cover Indemnitee's service as a Director and/or Officer prior to or after the date of the Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and signed as of the day and year first above written.

CODA OCTOPUS GROUP, INC.

INDEMNITEE

By: _____
Name: _____
Position: _____

Print Name: Judith Wallace

June 1, 2010

Admiral Christopher Parry
99 Havant Road
Drayton
Portsmouth
PO6 2JE
Hampshire
United Kingdom

Dear Admiral Parry,

Letter of Appointment

The Board has approved that you should be appointed as a non-executive Director of Coda Octopus Group, Inc. (the "Company") with effect from April 29, 2010. It is agreed that this is a contract for services and is not a contract for employment.

I am writing to set out the terms of your appointment approved by the Board as a non executive Director of the Company.

1. APPOINTMENT

- 1.1 Subject to the remaining provisions of this letter, your appointment shall continue until terminated in accordance with this Agreement.
- 1.2 The appointment is subject to review by the Board at any time and to termination by either party upon four (4) weeks written notice. All Directors are subject to re-election at the Company's Annual General Meeting. This appointment shall automatically terminate if you are not re-elected at the Annual General Meeting of Stockholders or if you become prohibited by law from serving as a Director.

2. ROLE AND DUTIES

2.1 You shall at all times during the period of your appointment:

- (a) undertake to devote such time to the business of the Company, including your attendance at Board Meetings as is required to perform your duties as non-executive Director; and
- (b) keep the Board promptly and fully informed (in writing if so requested) of all matters relating to conduct of the business or affairs of the Company arising during the course of your appointment and provide such explanations as the Board may require.

2.2 As a non-executive director you shall have the same general legal responsibilities to the Company as any other director. The Board as a whole is collectively responsible for the success of the Company. The Board's role is to:

- (a) provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to the Company be assessed and managed;
- (b) set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance; and
- (c) set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

2.3 All Directors must take decisions objectively in the interest of the Company.

2.4 All directors must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

2.5 In your role as a non-executive director, you shall also be required to:

- (a) constructively challenge and contribute to the development of strategy;
- (b) scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- (c) satisfy yourself that financial information is accurate and that financial controls and systems of risk management are robust and defensible;
- (d) be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing senior management and in succession planning;

Coda Octopus Group, Inc
111 Town Square Place, Suite 1201, Jersey City, New Jersey 07310
t: +1 212 924 3442 f: +1 212 924 3447 e: info@codaoctopus.com w: www.codaoctopus.com
Offices also at: Salt Lake City, Utah USA; Edinburgh, Scotland, UK; Weymouth, Dorset, UK; Bergen, Norway

- (e) serve on the remuneration committee of the Board (when it is re-established) and attend all committee meetings;
 - (f) at all times comply with the Byelaws of the Company;
 - (g) abide by your statutory, fiduciary and common-law duties as a director of the Company;
 - (h) diligently perform your duties and use your best endeavours to promote, protect, develop and extend the business of the Company.
- 2.6 You shall be entitled to request all relevant information about the Company's affairs as is reasonably necessary in order to enable you to discharge your duties.

3. FEES

Board Fees: You shall be paid \$1,875 per board meeting attended (four meetings are scheduled annually).

Stock Grant: Subject to completing one year, on the anniversary of your appointment which took effect on April 29, 2010 the Company shall issue 100,000 shares of Common Stock (fully paid up and non-assessable). In the event of earlier resignation or termination of this appointment this will be forfeited.

Option Grant: The Company shall grant to you the option to acquire 50,000 shares at an exercise price of \$1.05 or as priced from time to time by the Board. The Option will vest, assuming you are still a non-executive Director, as follows: The option agreement is appended hereto.

50% immediately (25,000 as of 1 June 2010)

50% one year after the effective date of your appointment (25,000). If you should resign prior to this, the Option for this 50% shall lapse.

Expenses: The Company shall reimburse you for all reasonable and properly documented expenses that you incur in performing the duties of your office in accordance with its standard expense policy in force from time to time.

You will be responsible for the payment of any taxes due on remuneration.

4. OUTSIDE INTERESTS

- 4.1 It is accepted and acknowledged that you have business interests other than those of the Company and have declared any conflicts that are apparent at present. If you become aware of any potential conflicts of interest, these should be disclosed to the Chairman and Company Secretary as soon as you become aware of them.

5. TERMINATION OF APPOINTMENT

- 5.1 The Company (acting through the Board) may terminate your appointment with immediate effect if you have:
- (a) committed any serious or repeated breach or non-observance of your obligations to the Company (which include an obligation not to breach your statutory, fiduciary or common-law duties); or
 - (b) been guilty of any fraud or dishonesty or acted in any manner which, in the opinion of the Company, brings or is likely to bring you or the Company into disrepute or is materially adverse to the interests of the Company; or
 - (c) been declared bankrupt or have made an arrangement with or for the benefit of your creditors, or if you have a county court administration order made against you under the County Court Act 1984; or
 - (d) been disqualified from acting as a director.
- 5.2 In the event that you are not re-elected at the Annual General Meeting of Stockholders the appointment shall terminate forthwith.
- 5.3 Termination shall not affect any rights that have accrued up to the date of termination.

6. CONFIDENTIALITY

- 6.1 All information acquired during your appointment is confidential to the Company and should not be disclosed to third parties or used for any reason other than in the interests of the Company, either during your appointment or following termination (by whatever means), without prior clearance from the Chairman in writing.
- 6.2 Nothing in this paragraph 6 shall prevent you from disclosing information which you are entitled to disclose under the Public Interest Disclosure Act 1998 or similar legislation in the United States, provided that the disclosure is made in accordance with the provisions

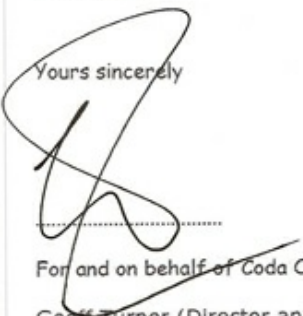
of that Act and any similar Act and you have complied with the Company's policy from time to time in force regarding such disclosures.

7. INSURANCE

The Company has directors' and officers' liability insurance and it intends to maintain such cover for the full term of your appointment. The current indemnity limit is \$5,000,000. A copy of the policy document is available from the Company Secretary or the Chief Financial Officer.

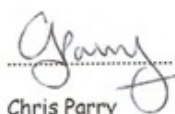
Please indicate your acceptance of these terms by signing and returning to the attached copy of this letter.

Yours sincerely



For and on behalf of Coda Octopus Group, Inc
Geoff Turner (Director and CEO)

I agree to the above terms of appointment as a non-executive director



Chris Parry

June 7 2010

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Geoff Turner, 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: June 14, 2010

/s/ Geoff Turner

Geoff Turner

Chief Executive Officer

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Judith Wallace, 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: June 14, 2010

/s/ Judith Wallace

Judith Wallace

Chief Financial Officer

**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 April 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Geoff Turner, Chief Executive Officer, and I, Judith Wallace, 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/ Geoff Turner

Geoff Turner
President, Chief Executive Officer

/s/ Judith Wallace

Judith Wallace
Chief Financial Officer

Date: June 14, 2010
