

**Coda Octopus Group, Inc.**

**Unaudited Consolidated Financial  
Statements for the Fiscal Year  
November 1, 2009 to  
October 31, 2010.**

Coda Octopus Group, Inc  
November 1st 2009 to October 31st, 2010

Consolidated Accounts

	To: <b>October 31st, 2010</b>	<b>October 31st, 2009</b>
<u>Income Statement</u>	<u>Group Totals</u>	<u>Group Totals</u>
Net Revenue	11,509,933	13,224,435
Cost of Revenue	6,175,633	6,315,961
<b>Gross Profit</b>	<b>5,334,300</b>	<b>6,908,474</b>
Research & Development	1,762,035	2,652,713
Selling, General & Administrative	7,652,768	11,238,961
<b>Operating Income/Loss</b>	<b>- 4,080,502</b>	<b>- 6,983,200</b>
<b>Other Income (Expense)</b>		
Other Income	1,562,282	201,748
Interest Expense	- 2,005,836	- 1,846,883
Gain (loss) on change in fair value of derivative liability	2,557,546	
Unrealized gain on sale of investment in marketable securities	2,125	
Realized gain on the sale of marketable securities	37,000	- 782,595
<b>Total other income (expense)</b>	<b>2,153,118</b>	<b>- 2,427,730</b>
Loss before income taxes	- 1,927,384	- 9,410,930
Provision for income taxes	- 149,070	22,208
<b>Net Loss</b>	<b>- 1,778,314</b>	<b>- 9,433,138</b>
Preferred Stock Dividends		
Series A		- 47,382
Series B		
Beneficial Conversion Feature		
Net Loss Applicable to Common Shares	<b>- 1,778,314</b>	<b>- 9,480,520</b>
Loss per share, basic and diluted	<b>-0.03</b>	<b>-0.19</b>
Weighted average shares outstanding	<b>60,614,958</b>	<b>48,707,615</b>
Comprehensive loss		
Net loss	- 1,778,314	- 9,433,138
Foreign currency translation adjustment	449,648	- 143,921
Unrealized gain (loss) on investment	2,125	- 17,000
Comprehensive loss	<b>- 1,326,542</b>	<b>- 9,594,059</b>

see accompanying notes to these unaudited consolidated financial statements

	To: <b>October 31st, 2010</b>	<b>October 31st, 2009</b>
	<u>2,010</u>	<u>2,009</u>
<b>Balance Sheet</b>	<b>Group</b>	<b>Group</b>
	<b>Totals</b>	<b>Totals</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	215,204	275,885
'Restricted Cash, Note 2	827,266	994,081
Short Term Investments, Note 4	14,875	51,000
Accounts Receivables, net of allowance for doubtful accounts	1,863,842	2,033,879
Inventory	1,780,114	2,798,425
Unbilled Receivables, Note 3	587,015	690,344
Other current assets, Note 5	180,597	285,691
Prepaid Expenses	218,056	247,134
<b>Total Current Assets</b>	<b>5,686,971</b>	<b>7,376,439</b>
Property and Equipment, net, Note 6	114,470	267,964
Deferred financing costs of nil in 2010 and \$1,271,170 in 2009	-	1,271,170
Goodwill and other intangibles, net, Note 7	3,921,847	4,221,807
<b>Total Assets</b>	<b>9,723,288</b>	<b>13,137,380</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable, trade	2,036,340	2,390,039
Accrued Expenses and other current liabilities	4,057,951	4,626,164
Short term loan payable	452,119	-
Loans and notes payable, Note 13	-	398,482
Loans and note payable, long term, Note 13	14,131,747	-
Warrant liability, Note 10	473,384	-
Deferred revenues, Note 3	1,214,183	404,274
Deferred payment related to acquisitions	394,212	-
<b>Total Current Liabilities</b>	<b>22,759,937</b>	<b>7,818,959</b>
Loans and note payable, long term, Note 13	-	13,233,523
<b>Total Liabilities</b>	<b>22,759,937</b>	<b>21,052,482</b>
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 July 31, 2010 and October 31, 2009, respectively	6	6
Nil shares Series B issued and outstanding as of July 31, 2010 and October 31, 2009, respectively		
Common stock, \$.001 par value; 150,000,000 shares authorized 60,614,958 and 49,325,244 shares issued and outstanding as of July 31, 2010 and October 31, 2009, respectively	60,615	49,000
Common Stock subscribed		96,350
Additional paid-in capital	47,167,905	51,766,495
Accumulated other comprehensive loss	-	696,617
Accumulated deficit / surplus	-	59,130,336
Treasury Stock		
Capital Surplus		
Currency Translation Adjustments	-	
<b>Total Stockholder's Equity</b>	<b>- 13,036,649</b>	<b>- 7,915,102</b>
<b>Total liabilities and stockholders' deficit</b>	<b>9,723,288</b>	<b>13,137,380</b>

see accompanying notes to these unaudited consolidated financial statements

<b>Cash Flow</b>	To: <b>October 31st, 2010</b>	<b>October 31st, 2009</b>
	<u><u>2,010</u></u>	<u><u>2,009</u></u>
<b><u>Cash Flows from Operating Activities</u></b>		
Net income/(loss)	-	1,778,313
Adjustments to reconcile net loss to net cash used by operating activities:		9,433,137
Depreciation and amortization	7,656	689,744
Stock based compensation	66,771	290,722
Change in fair value of warrant liability	-	1,810,757
Financing costs	898,224	1,534,295
Impairment of investment of marketable securities	-	2,125
Bad debt expense	-	238,458
Gain on sale of investment in marketable securities	-	37,000
Loss on sale of assets		11,636
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Short-Term Investments		
Accounts receivable	170,036	593,621
Inventory	1,018,311	-
Prepaid expenses	18,574	138,696
Unbilled receivables and Other assets	208,421	-
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	-	939,423
Deferred revenues	809,909	-
Due to related parties	-	40,228
	<u><u>-</u></u>	<u><u>-</u></u>
Net cash (used)/generated by operating activities	-	1,369,716
		1,665,070
<b><u>Cash Flows from Investing Activities</u></b>		
Purchases of property and equipment	-	12,954
Purchases of intangible assets	1,720,393	-
Acquisitions Payments		181,317
Cash subject to restriction	166,815	22,926
Cash acquired from acquisitions	-	877
	<u><u>-</u></u>	<u><u>-</u></u>
Net cash provided by/(used in) investing activities	1,874,254	-
		223,796
<b><u>Cash Flows from Financing Activities</u></b>		
Proceeds from/(repayments of) loans	452,091	-
Proceeds for sale of marketable security	49,750	-
Shares issued for warrants	-	677,766
Common stock subscribed	-	96,350
Deferred payment related to acquisitions	-	10,219
Preferred stock dividend	-	101,256
	<u><u>-</u></u>	<u><u>-</u></u>
Net cash (used)/provided by financing activities	-	282,494
		1,631,342
Effect of exchange rate changes on cash	-	282,726
	<u><u>-</u></u>	<u><u>-</u></u>
Net (decrease)/increase in cash	-	60,681
	<u><u>-</u></u>	<u><u>-</u></u>
Cash and cash equivalents, beginning of period	275,885	3,896,149
Cash and cash equivalents, end of period	<u><u>215,204</u></u>	<u><u>275,885</u></u>

see accompanying notes to these unaudited consolidated financial statements

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**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**October 2010 and audited 2009**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows. The financial statements for the fiscal year ended 2010 are unaudited financial statements. The financial statements for the fiscal year 2009 are audited financial statements.

**Business and Basis of Presentation**

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

The consolidated unaudited financial statements for the fiscal year ended October 31, 2010 include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statement.

**Use of Estimates**

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

**Revenue Recognition**

Our revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications and from the engineering services which we provide. Revenue is recognized when good evidence of a contractual 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, and recognize revenue for equipment upon delivery and for installation and other services as performed.

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

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 good evidence of a contractual arrangement for this, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

**Foreign Currency Translation**

Assets and liabilities are translated at the prevailing exchange rates at the balance sheet dates, related revenue and expenses are translated at average exchange rates in effect during the period and stockholders' equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income or (loss) as may be appropriate. Foreign currency transaction gains and losses are included in the statement of income.

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**Income Taxes**

Deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

**Cash and Cash Equivalents**

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

**Concentrations of Credit Risk**

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

**Accounts Receivable**

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was \$10,000 and \$255,789 for the years ended October 31, 2010 and 2009 respectively.

**Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, accounts receivable, other receivables, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. Our long term debt has interest rates that approximate market and therefore the carrying amounts approximate their fair values.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory is comprised of the following components at October 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Raw materials	\$ 855,211	\$ 1,384,043
Work in process	\$132,993	\$ 48,389
Finished goods	\$791,910	\$ 1,365,993
Total inventory	<u>\$1,780,114</u>	<u>\$ 2,798,425</u>

**Property and Equipment**

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

**Long-Lived Assets**

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the years ended October 31, 2010 and 2009.

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**Research and Development**

Research and development costs consist of expenditures for the present and future patents and technology, which are not capitalizable. We are eligible for United Kingdom tax credits related to our qualified research and development expenditures. Tax credits are classified as a reduction of research and development expense. During the year ended October 31, 2010, we recorded tax credits totaling \$149,070 and during 2009 tax credits totaling \$358,346.

**Other Operating Expenses**

We incurred costs of \$55,140 and nil as non-recurring fees and expenses in connection with our financings and acquisitions for October 31, 2010 and 2009, respectively. This amount was satisfied by the issuance of the Company's common stock.

**Intangible Assets**

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Goodwill is not amortized and is evaluated for impairment annually or more often if circumstances indicate impairment may exist. Customer relationships, non-compete agreements, patents and licenses are being amortized on a straight-line basis over periods of 2 to 10 years. The Company amortizes its amortizable intangible assets using the straight-line method over their estimated period of benefit. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. In the fourth quarter of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill.

**Stock Based Compensation**

We recognise the expense related to the fair value of stock-based compensation awards within the statement of income. We have used the transition method, for stock-based compensation expense for the years ended October 31, 2010 and 2009 and have included compensation expense for unvested stock-based compensation awards that were outstanding as of January 1, 2006 for which the requisite service was rendered during the year. The stock-based compensation costs for these awards granted prior to January 1, 2006 were based on the grant date fair value was estimated. Compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 is based on the grant date fair value estimated and recorded over the requisite service period.

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

**Comprehensive Income**

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Comprehensive income includes gains and losses on foreign currency translation adjustments and is included as a component of stockholders' equity.

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**Deferred Financing Costs**

Deferred financing costs primarily include debt issuance costs incurred by the Company in connection with the issuance of convertible debt in February 2008 (see Note 11). Amortization is provided on a straight-line basis over the terms of the respective debt instruments to which the costs relate and is included in interest expense. Deferred financing cost expense was nil and \$1,271,170 respectively.

**Earnings Per Share**

We compute basic earnings per share by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effect, if any, from the potential exercise of stock options and warrants using the treasury stock method, as well as the dilutive effect from outstanding restricted Common Stock. Potential common shares not included in the calculation of net income per share, since their effect would be anti-dilutive. Per share basic and diluted net loss amounted to \$0.03 and \$0.19 for the years ended October 31, 2010 and 2009, respectively.

**Liquidity**

The Company's financial statements have been prepared assuming it will continue as a going concern. For the fiscal year ended October 31, 2010, the Company has an accumulated deficit of \$59,285,833, negative working capital of \$17,072,966, a capital deficit of \$13,036,649 and generated a deficit in cash flow from operations of \$1,369,716 in the fiscal year ended October 31, 2010 against \$1,665,070 in the fiscal year ended October 31, 2009.

The Company has been dependent upon the 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 14). Management believes that based upon recent cost reduction program under which our SG&A was reduced to a more viable level; based upon our reorganization of our business, customer prospects have been enhanced; 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; the Company will be able to continue its operations through October 31, 2011. The Company's ability to continue as a going concern is ultimately dependent upon achieving profitable operations and generating sufficient cash flows from operations to meet future obligations.

**NOTE 2 – RESTRICTED CASH**

Under terms of the Company's secured convertible debenture dated February 26, 2008, we maintained a \$1,000,000 interest-bearing deposit in a restricted bank account until such time as our then factoring arrangement ceased, and all liabilities extinguished and UCC liens released. 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 by our debenture holder 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 (See Note 14).

**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



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are stated on the balance sheet as Unbilled Receivables of \$587,015 and \$690,344 as of October 31, 2010 and 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 \$898,091 and \$117,256 as of October 31, 2010 and 2009, respectively.

Revenue received for the sale of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales. These amounts are amortized over the 12-month warranty term starting from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of \$341,794 and \$287,018 as of October 31, 2010 and 2009, respectively.

**NOTE 4 - OTHER CURRENT ASSETS**

Other current assets on the balance sheet total \$180,597 and \$285,690 at October 31, 2010 and 2009 respectively. These totals comprise the following:

	<b>2010</b>	<b>2009</b>
Deposits	\$ 98,704	\$ 96,277
Value added tax (VAT) receivable	22,582	113,636
Other receivables	59,311	75,777
<b>Total</b>	<b>\$ 180,597</b>	<b>\$ 285,690</b>

**NOTE 5 - FIXED ASSETS**

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

	<b>2010</b>	<b>2009</b>
Machinery and equipment	\$ 849,583	\$1,001,385
Accumulated depreciation	(735,113)	(733,420)
<b>Net property and equipment assets</b>	<b>\$ 114,470</b>	<b>\$ 267,964</b>

Depreciation expense recorded in the statements of operations for the years ended October 31, 2010 and 2009 is \$95,858 and \$238,632, respectively.

**NOTE 6 - INTANGIBLE ASSETS AND GOODWILL**

Goodwill and Other Intangible Assets, whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to believe that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations. The identifiable intangible assets acquired and their carrying value at October 31, 2010 and 2009 is:

	<b>2010</b>	<b>2009</b>
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)	76,539	67,837
Licenses (weighted average life of 2 years)	0	100,000
Total amortized identifiable intangible assets - gross carrying value	1,139,433	1,230,731
Less accumulated amortization	(630,384)	(533,462)
<b>Net</b>	<b>509,049</b>	<b>697,269</b>
<b>Residual value</b>	<b>\$ 509,049</b>	<b>\$ 697,269</b>

Our acquisition of Dragon Design Ltd (“Dragon”) in December 2008 resulted in the valuation of Dragon’s customer relationships and covenants not to compete as intangible assets (see Note 13), which have an estimated useful life of 3 years each, and as such are being amortized on a straight-line basis over that period. In

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addition, we recognized goodwill of \$282,533 that represents the excess of the purchase price we paid over the fair value of Dragon's net tangible and intangible assets we acquired.

Our acquisition of the assets of Tactical Intelligence, LLC ("Tactical") In November 2008 resulted in the valuation of Tactical's customer relationships and covenants not to compete as intangible assets, which have an estimated useful life of 3 years each, and as such are being amortized monthly over that period. In addition, we recognized goodwill of \$135,000 that represents the excess of the purchase price we paid over the fair value of Tactical's net tangible and intangible assets acquired.

Estimated annual amortization expense as of October 31, 2010 is as follows:

	2011	\$ 131,537
	2012	\$ 76,696
	2013 and thereafter	\$ 336,008
	<b>Total</b>	<b>\$ 544,241</b>

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$350,588 and \$231,321 for the years ended October 31, 2010 and 2009, respectively. Goodwill is not being amortized.

As a result of the acquisitions of Martech, Colmek, Dragon and Tactical, the Company has goodwill in the amount of \$3,382,108,538 as of October 31, 2010 and \$3,524,538 as of October 31, 2009. The carrying amount of goodwill for the period ended October 31, 2010 and year ended October 31, 2009 are recorded below

	2010	2009
Beginning goodwill balance at November 1:		
CodaOctopus Colmek, Inc.	\$2,038,699	\$2,038,669
CodaOctopus Martech Ltd	998,591	998,591
CodaOctopus Products Ltd	62,315	62,315
Goodwill recorded upon acquisition:		
CodaOctopus Tactical Intelligence, Inc.		142,430
Dragon Design Ltd	282,533	282,533
<b>Balance at October 31, 2010 and 2009</b>	<b>\$3,382,108</b>	<b>\$3,524,538</b>

Considerable management judgment is necessary to estimate fair value. We enlisted the assistance of an independent valuation consultant to determine the values of our intangible assets and goodwill, both at the dates of acquisition and at dates thereafter.

Based on various market factors and projections used by management, actual results could vary significantly from management's estimates.

The Company's policy is to test its goodwill balances for impairment on an annual basis, in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. On May 1, 2010 as part of its restructuring program the Company closed down its Coda Octopus Tactical Intelligence, Inc operations and all goodwill associated with the acquisition of Tactical was written off in the fiscal year ended October 31, 2010.

The goodwill assets of the Company arose chiefly from the acquisition of two wholly owned subsidiaries that comprise the Company's professional services reporting units- Martech and Colmek.

The Company performed its regular impairment test by engaging an experienced consultant in these matters.

We believe that there has been no change in the regulatory or legal environment that could have a negative impact on the Martech or Colmek' operations. Further, in addition during 2010 the Company again engaged the services of a consultant to verify the conclusions that the Company had reached in evaluating its goodwill. The consultant again reviewed the same series of measures and tests that had been performed in prior years and verified these values as reasonable.

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Based on these evaluations, the fair value of goodwill exceeds its carrying book value. As such no impairment was recorded by management.

**NOTE 7 - CAPITAL STOCK**

The Company is authorized to issue 150,000,000 shares of common stock with a par value of \$.001 per share.

The Company has issued and outstanding 60,614,958 shares and 49,000,244 shares of common stock as of October 31, 2010 and 2009 respectively.

The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of \$.001 per share. We have designated 50,000 preferred shares as Series A preferred stock and have designated 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock is undesignated. There were 6,287 Series A preferred shares outstanding at October 31, 2010 and October 31, 2009 respectively, and nil Series B preferred shares outstanding at the same dates.

Series A Preferred Stock

The Series A Preferred Stock currently in issue was sold in units of \$100 and £100 and has a dividend rate of 12% per year, i.e. \$12 per \$100 unit and £12 per £100 unit, paid every six months, in May and November each year, out of legally available funds within the meaning of Delaware law. The Series A Preferred Stock and accrued dividends is convertible at the option of the holder into shares of our common stock at a conversion price of \$1.00 per share and at the option of the Company when the stock price reaches or exceeds \$3.00. At the date of this initial disclosure we have 6,287 Series A Preferred Stock issued and outstanding.

During the year ended October 31, 2008, we issued 200 shares of Series A Preferred Stock, which were subscribed for in March 2007 and converted 320 shares of Series A Preferred Stock into 32,000 shares of common stock. The original transaction was concluded in GBP at a price of £32,000. The fixed exchange rate at which the Preferred Stock was issued is \$1.77 to GBP 1.00. This is equivalent to 320 Series A Preferred Stock (GBP 100 each). 320 units of Series A Preferred Stock were issued in exchange for consultancy services provided by a consultant to the Company. The total of Series A preferred stock outstanding is 6,287 shares at October 31, 2010.

Series B Preferred Stock

We designated 50,000 shares of our preferred stock, par value \$.001, as Series B Preferred Stock. The Series B Preferred Stock ranks junior to our issued and outstanding Series A preferred Stock and senior to all classes of common stock. The Series B Preferred Stock has a dividend rate of 8% per year. The Series B Preferred Stock and accrued dividends are convertible at the option of the holder into shares of our common stock at a conversion price of \$1.00 per share. As of October 31, 2010, we have no shares of Series B Preferred Stock outstanding.

Common Stock

During the year ending October 31, 2010 we issued 375,000 shares of common stock, valued at \$42,000, to employees, directors and consultants for services.

During the year ending October 31, 2010 we also issued 11,239,714 shares of our common stock to a number of existing investors in exchange for the (i) surrender of a number of warrants and (ii) cancellation of the securities purchase agreements which contained anti-dilution and price protection provisions (and which served as barriers to new investment in Company).

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

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Other Equity Transactions

During the year ended October 31, 2010, we issued 50,000 common share purchase options to a director. However, options issued in earlier periods vested, resulting in a charge of \$24,771 in this period. There were also 4,106,000 options cancelled connected with staff departures and expiry.

**NOTE 8 - WARRANTS AND STOCK OPTIONS**

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

Warrants	Year ended October 31, 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	(8,464,000)-	\$ 1.27	-	-
Outstanding at the end of the period	24,119,418	\$ 1.47	32,583,418	\$ 1.42
Exercisable at the end of the period	24,119,418	\$ 1.47	32,583,418	\$ 1.42

The number and weighted average exercise prices of warrants outstanding as of October 31, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	250,000	0.50	250,000
0.58	400,000	0.41	400,000
1.00	350,000	0.82	350,000
1.30	11,559,709	1.14	11,559,709
1.50	-	-	-
1.70	11,559,709	1.14	11,559,709
1.80	-	-	-
Totals	24,119,418	1.17	24,119,418

Stock Options	Year ended October 31, 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	1.05	50,000	1.30
Terminated during the period	(4,106,000)	1.18	(210,000)	1.32
Outstanding at the end of the period	1,539,900	\$ 1.19	5,595,900	\$ 1.18
Exercisable at the end of the period	1,522,900	\$ 1.19	5,214,149	\$ 1.17

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The number and weighted average exercise prices of stock purchase options outstanding as of October 31, 2010 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	839,900	0.38	839,900
1.05	50,000	4.60	50,000
1.30	375,000	2.76	358,000
1.50	65,000	1.42	65,000
1.70	210,000	1.66	210,000
1.80	-	-	-
Totals	1,539,900	1.32	1,522,900

**NOTE 9 - INCOME TAXES**

The Company's, 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 \$28,256,404 which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately \$9,607,000. 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 \$4,342,603 with no expiration. The deferred tax asset related to the carry-forward is approximately \$1,324,124. The Company has made a provision for a valuation reserve against the full amount of the benefits as in the opinion of the management it is unlikely that this benefit will be realized.

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

<b>Non-Current</b>	<b>2010</b>	
Net operating losses carried forward	\$ 10,931,124	\$
Valuation allowance	(10,931,124)	)
Net deferred tax asset	\$ -	\$ -

The Company recognized no adjustment for unrecognized tax provisions.

**NOTE 10 - CONTINGENCIES AND COMMITMENTS**

**Litigation**

See Note 14.

**Operating Leases**

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our leases expire at various times through to September 2015. Future minimum lease obligations are approximately

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\$1,313,518, with the minimum future rentals due under these leases as of fiscal year 1 November 2011 as follows:

2011	313,587
2012	306,360
2013 and thereafter	296,527
2014	250,084
2015	164,670
Total	<u>\$1,313,518</u>

**NOTE 11 - NOTES AND LOANS PAYABLE**

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

	2010	2009
On February 21, 2008 the Company issued a convertible secured debenture with a face value of \$12M ("Secured Debenture"). The Secured Debenture matures on February 21, 2015 at 130% of its face value. The Secured Debenture attracts interest of 8.5% payable every six months, starting from February 21, 2009. During the term the Secured Debenture is convertible into shares of our common stock, at the option of the Debenture holder, at a conversion price of \$1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above \$2.50 between the second and third anniversaries of this agreement; \$2.90 between the third and fourth anniversaries of this agreement; and \$3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price.	\$13,966,153	\$13,230,629
Our UK subsidiary, Coda Octopus Products Limited has a seven (7) year unsecured Loan Note for GBP 100,000 (equivalent of \$160,000 using prevailing exchange rates). This Loan Note attracts interest of 12% annually. The Company has the option to pay this at any time but no later than its maturity date or to force its conversion into shares of our common stock in the event that the share price reaches \$3.00.	165,594	165,594
Total	\$14,131,747	\$13,396,223
Less: current portion	0	0
Total long-term portion	<u>\$14,131,747</u>	<u>\$13,396,223</u>

**NOTE 12 - RELATED PARTY TRANSACTIONS**

We are also owed by related parties a sum of nil at October 31, 2010 compared to nil at October 31, 2009. During 2010 we paid in connection to the then existing Cash Control Framework Agreement with Greenhouse Investments Limited, administrative fee of \$10,000 per month for this facility. In total we paid \$120,000 for this facility (See Note 14).

**NOTE 13 - ACQUISITIONS**

*Acquisition of Tactical Intelligence*

In November 2008, the Company formed a new subsidiary called Coda Octopus Tactical Intelligence, Inc. ("Tactical") to facilitate our entry into the counter-terrorism and anti-piracy training markets, which we believe are integral to our efforts to help major customers deploy real time 3D sonar systems in hot spots around the

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world. On November 10, 2008, Tactical acquired the assets of Tactical Intelligence International, LLC and Tactical Executive Services, LLC, which consisted of some plant and machinery, valued at \$5,000, customer relationships, valued at \$60,000, non-compete agreements, valued at \$50,000, and goodwill, valued at \$135,000. The purchase price consisted of an initial cash outlay of \$125,000, a convertible promissory note in the amount of \$125,000 due on November 10, 2009, and 50,000 options to acquire common shares of Coda Octopus Group, Inc., which were due to be issued in June 2009. The acquisition of Tactical was accounted for using the purchase method. On May 1, 2010 as part of its restructuring program the Company closed down its Coda Octopus Tactical Intelligence, Inc operations and all goodwill associated with the acquisition of Tactical was written off in the fiscal year ended October 31, 2010.

The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's estimates. The total purchase price was allocated to the assets and liabilities acquired as follows:

Equipment, net	\$ 5,000
Customer relationships acquired	60,000
Non-compete agreements acquired	50,000
Goodwill	142,430
<b>Total purchase price</b>	<b>\$ 257,430</b>

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

*Acquisition of Dragon Design Ltd*

In December 2008, the Company acquired all the issued and outstanding shares of Dragon Design Ltd ("Dragon"), an electronics manufacturing and design business based in Weymouth, UK, and situated next to its Martech subsidiary. Management believes the companies have complementary skills and capabilities that can enhance revenues and opportunities for both companies. The purchase price for the assets consisted of an initial cash outlay of £56,250 (\$83,000) and a further £56,250 (\$83,000) in deferred consideration, payable on the first anniversary of closing.

The acquisition of Dragon was accounted for using the purchase method. The results of operations for Dragon have been included in the Consolidated Statements of Operations since the date of acquisition. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's estimates. The total purchase price was allocated to the assets and liabilities acquired as follows:

During 2010 the operations of Dragon Design were integrated into Coda Octopus Martech (See Note 14).

**NOTE 14 – SUBSEQUENT EVENTS**

In November 2010 all litigation in which the Company was involved was settled in full.

In March 2011 the Cash Control Framework Agreement between the Company and Noteholder ceased by mutual agreement.

Dragon Design operations were merged into those of Coda Octopus Martech Limited and the trading entity Dragon Design Limited was dissolved in the fiscal year ended 2011.