

Coda Octopus Group, Inc.

Annual Report

November 1, 2010 –October 31, 2011

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Symbol: CDOC

Fiscal Year 10/31

March 8, 2012

Forward-Looking Statements

This report contains statements that do not relate to historical or current facts, but are “forward looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- customer demand for our products and market prices;
- general economic conditions
- our reliance on a few customers for substantially all of our sales;
- the intensity of competition;
- our ability to collect outstanding receivables;
- the amount of liquidity available at reasonable rates or at all for ongoing capital needs;
- our ability to raise additional capital if necessary to execute our business plan;
- our ability to attract and retain management, and to integrate and maintain technical information and management information systems;
- the outcome of legal proceedings affecting our business; and
- our insurance coverage being adequate to cover the potential risks and liabilities faced by our business.

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See the section entitled “Risk Factors, contained herein for a discussion of these and other risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances, except as required by law.

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Item 1: The exact name of the issuer and its predecessor (if any).

The exact name of the Issuer is Coda Octopus Group, Inc.

The Issuer's trading symbol on the Pink Sheets is CDOC.PK

Its predecessor is: The Panda Project, Inc.

Item 2: The address of the issuer's principal executive offices.

The address of the issuer's principal executive office is:

4020 Kidron Road
Suite #3
Lakeland
Florida 33811
Phone: + 1 801 973 9136
Fax: + 1 801 973 9285
Email: info@codaoctopusgroup.com
<http://group.codaoctopus.com/>

Item 3: The jurisdiction(s) and date of the issuer's incorporation or organization.

Following a reverse merger with The Panda Project Inc. (then a Florida corporation) on 13 July 2004, the Company changed its name to Coda Octopus Group, Inc. and was reincorporated in Delaware.

Item 4: The exact title and class of securities outstanding.

Securities outstanding: Common stock.

Trading symbol: CDOC

CUSIP: N/A

Item 5: Par or stated value and description of the security.

- A. Par or Stated Value. Provide the par or stated value for each class of outstanding securities.

The Par value of Common Stock is \$.001 per share

- B. Common or Preferred Stock.

1. For common equity, describe any dividend, voting and pre-emption rights.

Each holder of common stock is entitled to receive ratable dividends, if any, as may be declared by the Board of Directors at its discretion out of funds legally available for the payment of dividends within the meaning of Delaware law. As of the date of this annual report, we have not paid any dividends on our common stock, and none are contemplated in the foreseeable future. We anticipate that all earnings that may be generated from our operations will be used to finance our growth. Holders of common stock are entitled to one vote for each share held of record. There are no cumulative voting rights in the election of directors. Thus the holders of more than 50% of the outstanding shares of common stock can elect all of our directors if they choose to do so. The holders of our common stock have no pre-emptive, subscription, conversion or redemption rights.

Upon our liquidation, dissolution or winding-up, the holders of our common stock are entitled to receive our assets on a pro-rata basis.

2. For preferred stock, describe the dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions.

At the date of this annual report our certificate of incorporation authorizes the issue of up to 5,000,000 shares of Preferred Stock.

Series A Preferred Stock

On April 18, 2006 we designated 50,000 shares of our preferred stock, par value \$.001, as Series A Preferred Stock. The Series A Preferred Stock ranks senior to all classes of common and preferred stock and has no liquidation preference above par.

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 annual report we have 6,287 Series A Preferred Stock issued and outstanding.

Series B Preferred Stock.

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

3. Describe any other material rights of common or preferred stockholders.

See above.

4. Describe any provision in the issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer.

We do not have any provisions in our charter or bylaws that would delay, defer or prevent a change in control.

Item 6: The number of shares or total amount of the securities outstanding for each class of securities authorized.

In answering this item, provide the information below for each class of securities authorized.

Please provide this information (i) as of the end of the issuer's most recent fiscal quarter and (ii) as of the end of the issuer's last two fiscal years.

Common Stock

(i) Period end date:	March 8, 2012	October 31, 2011	October 31, 2010
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	74,439,665	74,339,665	60,614,958
(iv) Freely tradable shares (public float);	34,615,664	30,808,764	19,054,098
(v) Total number of shareholders of record	299	300	401

Series A Preferred Stock

(i) Period end date:	March 8, 2012	October 31, 2011	October 31, 2010
(ii) Number of shares authorized;	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding;	6,287	6,287	6,287
(iv) Freely tradable shares (public float);	-0-	-0-	-0-
(v) Total number of beneficial shareholders	5	5	5
(vi) Total number of shareholders of record	5	5	5

Item 7: The name and address of the transfer agent.

Olde Monmouth Stock Transfer Co., Inc.
200 Memorial Parkway
Atlantic Highlands
New Jersey 07716
Phone: +1 732 872-2727
Fax: +1 732 872-2728

PART 3

Item 8 Business

Overview

Coda Octopus Group, Inc. (“the Company”, “we”, “us”, “our Group”) are experts in sub-sea marine technology and are also engaged in marine engineering provided through two of our wholly owned subsidiaries.

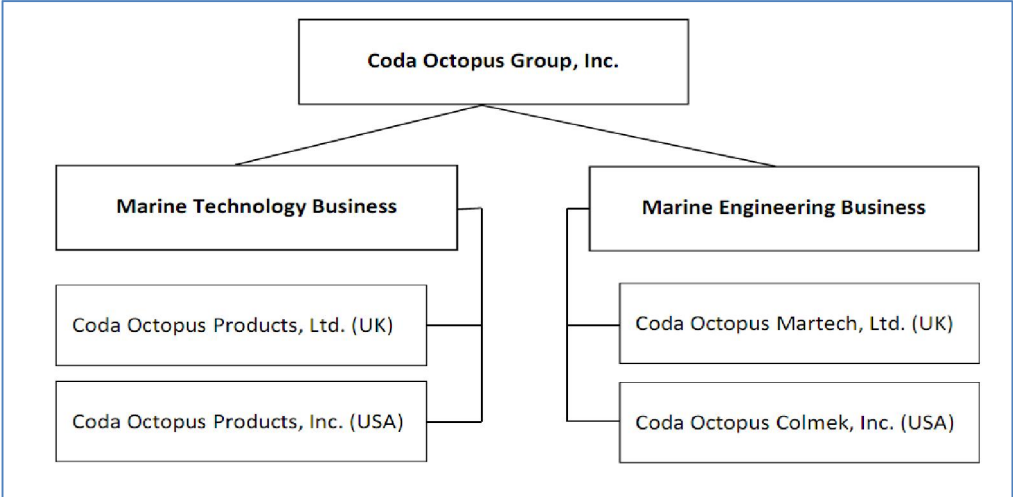
Our Group comprises the sub-sea marine technology operations which are conducted through our two wholly owned subsidiaries, Coda Octopus Products Limited based in the United Kingdom and Coda Octopus Products Inc. based in the USA. We believe that our sub-sea marine technology operations have a unique market lead over our competitors as the Company is the holder of patented real time 3D subsea technology, marketed under the name Echoscope®. The Echoscope® generates high resolution real time images of the underwater environment and gives particular benefits in turbid/zero visibility environments. The Echoscope® gives the user sound underwater intelligence in real time. We are unaware of any other sonar devices which have 3D real time visualization capabilities with the range and

resolution of the Echoscope®. Our cutting edge software used with the Echoscope® provides excellent real time images of subsea environments. Furthermore, we believe that we can maintain this lead as a consequence of the significant research and development resources we have invested, and continue to invest in this field. We also believe that the Echoscope® technology has significant potential to displace conventional 2D sonar tools and multi-beam sonar devices in a number of core applications.

The Group also comprises the marine and defense engineering operations conducted through two of our subsidiaries, Coda Octopus Colmek, Inc. (“Colmek”) based in the USA and Coda Octopus Martech Limited (“Martech”) based in the United Kingdom. Our marine engineering defense operations, which have long established engineering experience, mainly provide their services to prime and second level defense contractors, quasi-government institutions and the like. Frequently, they secure repeat revenues from developing prototypes which then turn into long term manufacturing contracts. For example, Colmek has been a supplier of key components in the Phalanx missile program for several years running. Similarly, Martech is currently prototyping a decontamination oven which is expected to form part of the ground equipment for jet fighter aircraft and will be used for decontaminating pilots’ high-tech and sensitive headsets. If the prototyping is successful, we would expect that the customer will take this to the production phase in the last quarter of the fiscal year ending October 31, 2012.

Both of our engineering companies are ISO9001 accredited.

Our Group Structure is as follows:



We also have a research and development facility operated through Coda Octopus R&D AS in Norway and Coda Octopus R&D Limited in the United Kingdom.

Our Group has been the subject of restructuring since October 2009.

Since the Group became a public company trading on the Pink Sheet in 2004 and moved its headquarters to New York in 2005, it has reported continuing and significant losses.

A new senior management and board were put in place in September 2009 to address these and other historical problems of the Group. Since September 2009, the focus and strategy of the new management has been to restructure the Group by (i) negotiating the removal of certain barriers to new investments that were contained in a series of securities purchase agreements; (ii) reducing the Group's cost base significantly; (iii) simplifying the Group structure; (iv) restructuring some of the Group's debts; and (v) taking the business to sustainable growth and profitability.

In respect of its cost reduction strategy, the new management focused initially on stripping out the costs associated with having an extended New York administrative center (including the rent and salaries of the then senior management that was based in New York). Closing the New York administrative center resulted in approximately \$1,200,000 per annum savings in salaries associated with our headquarters operations. We have drastically reduced the number of headquarters employees and consultants and have now co-located our headquarters with our US marine technology operational arm, Coda Octopus Products, Inc. in Lakeland, Florida.

The Selling, General and Administrative (SG&A) expenses of the Group have been gradually brought down to a level which positions the Group operations to be viable and become profitable in the near future. As we cautiously increase sales and marketing staff, we envisage SG&A of the Group will continue to be under \$6,000,000 compared to:

<u>Fiscal year –November 1 – October 31</u>	<u>Status of Financial Information</u>	<u>SG&A</u>	<u>Revenues</u>	<u>SG&A / Revenues</u>
Full Fiscal Year 2007 – 08	Audited	\$13.2m	\$17.0m	78%
Full Fiscal Year 2008 – 09	Audited	\$11.2m	\$13.2m	85%
Full Fiscal Year 2009 – 10	Unaudited	\$7.7m	\$11.5m	67%
Full Fiscal Year 2010 – 11	Unaudited	\$5.3m	\$15.7m	34%

Initially the new management was faced with a Group which, besides having SG&A approximating closely to revenues, had (as at October 2009) Accumulated Payables and Accrued Expenses and Other Current Liabilities of \$7,016,203. This was made up of \$4,626,164 of Accrued Expenses and Other Current Liabilities, which included provision for settlement of a number of disputes and other matters, and \$2,390,039 of Payables. This figure was a threat to the Group's continued existence and required us, over the restructuring period to, amongst other things, reschedule some of the Group's liabilities with its creditors, particularly in Coda Octopus Martech and to use most of the income generated in the course of the business to satisfy these.

Since October 2009 we have managed to reduce the \$4,626,164 of Accrued Expenses and Other Current Liabilities to \$1,547,428 as of October 31 2011, a reduction of 65%, whilst the Payables have also reduced slightly to \$2,248,438.

As of October 31, 2011 the remaining items within our Accrued Expenses and Other Current Liabilities comprises ordinary and current items such as sales pre-payments and provision for taxes and other matters.

A key achievement of our restructuring has been to reschedule in October 2010 certain liabilities of our wholly owned subsidiary Coda Octopus Martech Limited (“Martech”). In this connection, \$945,000 has been rescheduled over four years. This amount has now been reduced to approximately \$700,000. Martech pays approximately \$200,000 per year. As of the date of this document, Martech is current under this arrangement, and will need to keep current to avoid adverse consequences.

Since February 21, 2008 our Balance Sheet also includes a \$12 million convertible secured debt (“Debt”). This attracts an annual coupon of 8.5%, payable bi-annually. A primary focus of our restructuring has been to rehabilitate our income statement in such a way as to reach a level where the annual coupon obligations associated with this Debt are serviceable. Current revenues and costs levels of the Group are in keeping with the obligations of servicing this Debt. The failure to maintain our SG&A costs at around \$6million per annum and achieve revenues in excess of \$16m per annum would threaten our ability to sustain our profitability going forward.

Marine Technology Business

Our sub-sea Marine Technology Business sells worldwide a number of proprietary marine products in two market segments:

- Commercial Marine Geophysical Survey (including Oil and Gas); and
- Underwater Defense, Security and Construction

In the commercial marine geophysical survey sector our products comprise geophysical data acquisition systems and analysis software. Our products acquire data and interpret these for the users who are generally survey companies, research institutions and salvage companies.

In the Underwater Defense, Security and Construction markets we believe we have an important and unique technology which gives us a significant advantage over competitors. This is our range of products based on our patented Echoscope® which we believe are revolutionizing the sonar market, particularly in real time data acquisition, visualization and post-acquisition processing of subsea images and positioning. This patented technology is the result of more than twenty years of research and development by our subsidiary, Coda Octopus R&D AS, Norway, which we acquired in 2002. Since the acquisition of this company we have significantly advanced our research and development in respect of this technology in both hardware and software terms, filed further patents and brought to the market the second generation of the Echoscope® and the Underwater Inspection System (UIS™). The UIS™

integrates the Echoscope® with, amongst other elements, our positioning device, the Octopus F180™ to make a real time underwater inspection and surveillance device which provides superb visualization combined with absolute positioning at accuracies of up to 2 cm (<1”) and is used primarily in port and harbour security. Since our acquisition of Coda Octopus R&D AS we have spent around \$15 million in research and development efforts relating to the Echoscope®, both on the hardware and software elements.

A series of trials conducted in 2011 by independent experts have validated our longstanding position that the Echoscope® performance exceeds that of the current standard industry tools (such as the multi-beam sonar) in a number of key applications and provides unparalleled image resolution and beam density. We believe that these capabilities combined with our unique real time visualization advantage, places the Echoscope® in a position to become the sonar of choice for many applications in the future. Moreover, many users in complex situations such as underwater construction are reporting significant time savings, and health and safety benefits, which allow them to out-perform their competitors. In summary, we believe that this real time visualization lead which we have, and which has led to Echoscope® being referred to by one of our significant customers, Van Oord, as “[their] underwater eyes”, is making progress in shifting the traditional and conservative approach of the sonar market. It is our belief that our next generation of the Echoscope® will become the tool of choice for a number of applications in marine electronics and sonar industry.

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

- inspection of harbor walls;
- inspection of ship hulls;
- inspection of bridge pilings;
- inspection of offshore installations such as gas and oil rigs and wind turbines;
- Remotely Operated Vehicle (ROV) navigation (obstacle avoidance);
- Autonomous Underwater Vehicle (AUV) navigation and target recognition (obstacle avoidance);
- construction - pipeline touchdown placement and inspection;
- obstacle avoidance navigation;
- bathymetry (measurement of water depth to create 3D terrain models);
- managing underwater construction tasks;
- underwater intruder detection;
- dredging and rock dumping;
- contraband detection;
- locating and identifying objects undersea, including mines;
- detection and study of individual species in real time 3D (fish, etc.);
- oil and gas leak detection;
- fish school detection and analysis;
- diver tracking and guidance; and
- underwater archaeological and salvation site mapping.

The Echoscope® technology is protected by patents including a number of complementary patents such as our patent which covers our visualization methodology.

We market the Echoscope® both as a stand-alone sonar device and as a fully integrated system, the UIS™ (Underwater Inspection System) which is specifically aimed at the port security market. Since the introduction of the product to the market we have sold and delivered around 50 systems at market prices of between \$200,000 for standalone devices and \$500,000 for integrated UIS™ systems. Recently we are seeing repeat customers for the equipment leading us to believe that this product is getting more market acceptance and penetration and that these customers are getting significant returns on investments in deploying this device leading to their repeat orders. Furthermore, a significant US prime defense contractor has identified the Echoscope® as the sonar of choice for integration into an Autonomous Underwater Vehicle (AUV) being brought to market to service the oil and gas market. With the success of this vehicle will come a substantial opportunity for our Group.

Intellectual Property

Our product portfolio and technologies are protected by strong intellectual property rights including trademarks, copyrights and patents. We have a number of fundamental patents including a patent covering the stitching together of acoustic imagery. This covers the real time acoustic image generation element of what we do, and we believe it provides us with a competitive advantage.

Our patented inventions along with our strategy to enhance these inventions are at the heart of the Company's strategy for growth and development.

Our Patent portfolio consists of the following:

Patent Number	Description
US Patent No. 6,438,071	Concerns the "Method for Producing a 3-D Image" and is also recorded in the European Patents Register # EP 1097393 B1; Australia #55375/99 and Norway #307014. This patent relates to the method for producing a 3D image of a submerged object, e.g. a shipwreck or the sea bottom.
US Patent No. 6,532,192	Concerns "Subsea Positioning System and Apparatus"
US Patent No. 7,466,628	Concerns a "Method of constructing mathematical representations of objects from reflected sonar signals."
US Patent No. 7,489, 592	Concerns a "Method of automatically performing a patch test for a sonar system, where data from a plurality of overlapping 3D sonar scans of a surface, as the platform is moved, are used to compensate for biases in mounting the sonar system on the platform".
US Patent No. 7,898,902	Concerns a "method of representation of sonar images" allowing sonar three dimensional data to be represented by a two dimensional image.

Trademarks

In marketing and branding our products and services we use the following registered and unregistered trademarks: Coda®, Octopus®, Octopus & Design®, F180™, Echoscope®, UIS™, Survey Engine™, GeoSurvey™ and DAseries™.

In addition, we have registered a number of internet domain names.

Our Marine Engineering Operations

We operate in the space of marine engineering and defence through our two engineering services subsidiaries, Coda Octopus Martech Ltd., based in Weymouth, England, United Kingdom, and Coda Octopus Colmek, Inc., based in Salt Lake City, Utah, USA.

We provide engineering services to a wide variety of clients in the subsea and defense markets. A significant part of these services are provided to prime and second level defense contractors and are often for prototype productions which lead to long term manufacturing contracts. The intellectual property rights are often retained by the customers but the know-how obtained during the prototype development and manufacturing often gives us preferred supplier status for the long term manufacturing contracts and the obsolescence management and after-service care. The engineering capabilities within our Group are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support to our products. Currently, Martech is a key provider of various parts of our underwater inspection system and has been assisting in the optimizing of a number of our marine products.

Our Unique Selling Propositions and Prospects

We believe that we have the ability to capitalize on the opportunity that the Echoscope® technology presents as a result of:

- First mover advantage in the 3D real-time sonar markets underpinned by cutting edge proprietary software. We believe we are the first to bring to the market a sonar device with the capabilities of our patented Echoscope® technology. Our research and development efforts from which this product derives have extended over two decades and we believe we have the real advantage in the knowledge and skills that we have in this field.
- We believe the barriers to entry into the 3D real time sonar market for competitors are high given the extensive research and development required and the number of years and costs required to develop such technologies. We are aware of a number of research and development programs by large players to develop real time 3D sonar which have failed. Our lead comes from our 20 years of research and development in this field.

- Our technology has been validated by well-respected bodies and customers as a tool which has important capabilities in port security and underwater construction. The United States Coast Guard has a number of our Underwater Inspection Systems UIS™ (which are powered by our Echoscope® and our other proprietary product, the Octopus F180™).
- We are the patent holders of a number of key patents in this area.
- We believe we are now in a position to exploit the Echoscope® technology by expanding this technology into a range of more competitive products without significant further research and development costs or time delay.
- We believe that our technology is poised to be the next generation sonar tool in a number of sectors including in the underwater construction sector where significant time savings and health and safety benefits are consistently reported and in the port security area where our Underwater Inspection System™ gains equal praise for its capabilities, and is currently recognized as the only available solution.
- The Echoscope® is now being recognized as a product capable of delivering significant benefits in multiple applications. This is highly desirable for many customers who have the need for survey, monitoring and inspection and who typically otherwise would require two or more different sonars and configurations. Many customers now use the Echoscope® in this manner and are achieving considerable savings in time, and hence money and also health and safety benefits in the underwater construction market.
- The real time visualization capabilities of the Echoscope® have made it a device of serious interest to the search and recovery arm of law enforcement agencies. It is evident that in this scenario a tool that can provide real time images will have the lead over a conventional sonar tool whose proposition is to “see later”. As we continue our next generation of this technology we believe this will be seen as the sonar tool of choice in these types of recovery operations.
- We also believe that the Echoscope® will transform certain segments of the sonar product market as it has the ability to change the current industry standard practice and expectations in respect of the method for visualization and imaging of underwater objects and environment.
- We believe that the market opportunities in underwater security and defense could grow at a rapid pace over the next several years, even as defense budgets are cut, since surveillance and terror prevention remain high priorities even in these difficult economic times.

Customer and Experts Experiences

- Our customers are reporting significant return on investment from using the Echoscope® technology. For example, Van Oord, a Dutch based contractor specialized in dredging, marine engineering and offshore projects, and which has purchased a number of the Echoscope® devices, attests that in using the Echoscope® as the key tool during the construction of a breakwater in Ras Laffan, Qatar, where 37,000 Accropodes (specially shaped concrete blocks) had to be installed, they achieved significant time savings and health and safety improvements.

Van Oord fitted an Echoscope® to the arm of a hydraulic crane and this allowed the crane operator, unskilled in interpreting sonar images, to see where the Accropode was and – even more importantly – where the Accropode block in question was, in relation to the other Accropode blocks, and team members operating underwater. According to Van Oord:

“the project helped us form a good working relationship with the supplier of highly specialized equipment (i.e. Coda Octopus). In this way we were able to perfect the system for marine contractors. Later on, yet another useful tool was added to our arsenal... Now, as soon as the Echoscope® detects an Accropode and the software recognises it, it gets coloured in on the operator’s screen and is therefore presented in an easily visible manner. Thanks to the new application of an existing product, the project (i.e. the Ras Laffan project) became safer for divers and the Accropodes could be installed twice as quickly”. Van Oord continues: “The Echoscope® can be used in any number of applications including the installation and inspection of wind turbines and accompanying j-tubes (tubes designed to carry electrical cables)... We have used the equipment successfully on Amsterdam’s North-South Metro-Line under the city’s central train station. We are also using the Echoscope® on the Maasvlakte 2 port expansion project to clear out the existing sea wall built of 2mx2m concrete blocks. In short we are glad to have a useful tool like the Echoscope®”.

- During 2011 the Echoscope® was identified by a significant US Prime Defense Contractor as the key sensor to be used on its fleet of Autonomous Underwater Vehicles (AUV) which it intends to bring to the Oil and Gas market. We have supplied a number of our Echoscope® to this customer and expect this relationship to continue over the next few years. This customer has also reported significant time savings in deploying the Echoscope®, thus reducing its costs significantly.
- Through several recent trials by highly respected independent experts, the Echoscope® has been directly compared to the current top flight multibeam and sidescan systems for seabed mapping and seabed object detection. The results have confirmed our long standing position that the Echoscope® can directly match and exceed the performance of these industry standard sensors in a number of key applications. The implications are that Echoscope® potentially can displace the old technology used in the field of sonar and become the new technology to be adopted by this market.

Corporate History

We began as Coda Technologies Limited (now operating under the name of Coda Octopus Products Ltd), a United Kingdom corporation which was formed in 1994 as a start-up company with its origins as a research group at Heriot-Watt University, Edinburgh, Scotland. Our operations consisted primarily of developing software for subsea mapping and visualization using sidescan sonar, a technology widely used in commercial offshore geophysical survey and naval mine-hunting to detect objects on, and textures of, the surface of the seabed.

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

In December 2002, Coda Octopus Ltd acquired OmniTech AS, a Norwegian company, which became a wholly-owned subsidiary of the Company and now operates under the name Coda Octopus R&D AS. Before we acquired OmniTech AS, it had been engaged for over ten years in developing revolutionary sonar imaging and visualization technology to produce three-dimensional, real time underwater images for use in the subsea construction industry.

This technology (now marketed by us under the name of Echoscope®), which continues to be developed by our Research and Development teams in Norway and Edinburgh, allowed the Company to start to shift the original focus on hydrographic and geophysical survey to include port security and defense, with particular emphasis on the US market.

On July 13, 2004, pursuant to the terms of a share exchange agreement between The Panda Project, Inc., a Florida corporation, and Fairwater Technology Group Ltd. (“Fairwater”) – an affiliate of the then Chief Executive Officer – Panda acquired the shares of Coda Octopus Ltd, Fairwater’s wholly-owned subsidiary, in consideration for the issuance of a total of 20,050,000 shares of common stock to Fairwater and other shareholders of Coda Octopus Ltd in The Panda Project, Inc. The shares issued represented approximately 90.9% of the issued and outstanding shares of Panda Project Inc. The share exchange was accounted for as a reverse acquisition of The Panda Project Inc. by Coda. Subsequently, The Panda Project Inc. was reincorporated in Delaware and changed its name to Coda Octopus Group, Inc. Following this transaction we became a US public company.

Following the reverse merger and in continuance of our program to capture more of the market in the United States and our focus on port security and defense, we established a presence in the United States in New York which included our headquarters.

In June 2006, we acquired a United Kingdom based design and engineering firm, Martech Systems (Weymouth) Ltd (now Coda Octopus Martech Limited), which provides high quality bespoke engineering solutions in the fields of electronic data acquisition, transmission and recording, instrumentation and special test equipment and now manufactures and supports some of our marine products.

In April 2007, we acquired a Utah-based engineering firm, Colmek Systems Engineering (now Coda Octopus Colmek, Inc.), which is a custom engineering service provider of subsea and other engineering solutions, particularly in the fields of data acquisition, storage and display. This company has particular

links into the US defense industry, both directly and through its links with prime and second level defense contractors.

During April and May 2007, we entered into a series of securities purchase agreements with a group of accredited individuals and institutional investors ("Subscribers") providing for the issuance of 15,000,000 shares of our common stock and five year warrants to purchase 7,500,000 shares of common stock at \$1.30 and 7,500,000 shares of common stock at \$1.70. These securities purchase agreements and warrants contained certain price protection and anti-dilution provisions ("Agreements"). Between October and December 2010 in exchange for the termination of the Agreements the Company issued 21,857,143 shares of common stock to more than 85% of these Subscribers. This issuance represents approximately 44% increase in our issued and outstanding share capital. The surrendered warrants were cancelled by the Company.

On 21 February 2008, we borrowed \$12 million under a convertible secured promissory note ("Bond"). Our obligations under the Bond are secured against all our assets and undertakings. The Bond incurs interest of 8.5% per annum, payable bi-annually and is convertible at the bondholder's option at any time. The Company can also force the conversion of the Bond if the conditions are met. The Company's conversion conditions require that the common stock close on 40 consecutive trading days at or above \$2.50 between the second and third anniversaries of the agreement; at or above \$2.90 between the third and fourth anniversaries of the agreement; and at or above \$3.50 after the fourth anniversary of the 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 maturity date for the Bond is February 21, 2015.

In March 2009 we entered into a Cash Control Framework Agreement with the bondholder under which up to \$2.15m was made available to us to finance our ongoing operations in the ordinary course of our business. This has now been discharged by agreement between the parties.

In September 2009, the Company replaced its senior management and board, including the Chief Executive Officer, the Chief Financial Officer, the Chairman of the Board, and in December 2009 a number of Senior Vice Presidents. In September 2009, the Company appointed Geoff Turner as its Chief Executive Officer and a member of the Board of Directors. In March 2010, Michael Hamilton was appointed as Chairman of the Board of Directors. In September 2011, Annmarie Gayle was appointed Chief Executive Officer. Mr. Turner continues to serve as a Director and Group Officer.

As part of the new management's cost cutting program, the Company consolidated its offices and facilities. This resulted in the closure of its New York premises and migration of the administrative center of the business to its operating subsidiaries in both Florida and Salt Lake City, Utah.

Competition

Competition in Subsea Sector and relevant to our Marine Technology Business

The markets for underwater technologies, including data collection, mapping and imaging are substantial, with a broad range of industry applications. According to a report by industry experts Douglas Westwood Associates, annual global product sales total roughly \$3 billion into industry segments like oil and gas, defense/security, ports and harbors, construction, hydrography, telecommunications, law enforcement, search and recovery operations, universities and research institution, environmental monitoring and power generation.

The Company's goal is to establish industry leadership in the segments in which it competes.

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

Products

Data Acquisition Products: The sonar equipment industry is fragmented with several companies occupying niche areas, and we face specific competition from different competitors with respect to our different products. In the field of geophysical products Triton Imaging Inc., a US-based company, now part of the ECA Group (Toulon, France), Chesapeake, a US-based company, and Oceanic Imaging Consultants, Hawaii, USA, dominate the market with an estimated of 25% each of world sales, while we believe that we are just behind this with 15% of world-wide sales.

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

Real Time 3D Sonar: In the field of 3D real time imaging we believe that we have no direct competition at present since we are unaware of other companies offering such a product. The entry into this market is dependent upon specialized marine electronics and acoustic skills. The learning curve, which has resulted in the advancement of our real time 3D sonar device, is the culmination of two decades of research and development into this field. We are also aware of a number of high profile and substantial real time 3D projects which have failed. Over the last several years there have been lower grade sonars entering the market of 3D imaging. Companies such as Tritech International Ltd., United Kingdom, and

BlueView Technologies Inc., USA, are examples, but none of these sonar offerings are direct comparisons or competitions as they do not have the same capabilities as our patented Echoscope® technology in terms of generating real time 3D images of submerged objects and environments.

We seek to compete on the basis of producing high quality products employing cutting edge technology that is easy to use by operators without specialist skills in sonar technology. We intend to continue our research and development activities to continually improve our products, seek new applications for our existing products and to develop new innovative products.

Competition in Services relevant to our Marine Engineering Operations

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

Risk Factors as they relate to our Group

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this statement before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could be materially and adversely affected. This could cause the trading price of our common stock to decline, with the loss of part or all of an investment in the common stock.

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

Because of a lack of financial resources we have been unable to fully capitalize on the potentially game changing patented Echoscope® technology including bringing to the market a suitably priced 3D sonar product for the traditional 2D sonar users, thus making 2D sonar redundant. We will need to raise additional financing to secure our ongoing operations.

We have no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing on commercially reasonable terms is or will be available at all when needed.

The inability to obtain additional capital may reduce our ability to continue to conduct business operations. Any additional equity financing may involve substantial dilution to our existing stockholders. Our ability to raise additional capital for our operations will depend upon many factors, including:

- (i) Continued scientific progress in our Research and Development programs;
- (ii) Competing technological and market developments;
- (iii) Our ability to establish additional collaborative relationships;
- (iv) The effect of commercialization activities and facility expansions if and as required; and
- (v) Our ability to renegotiate the terms of the existing secured loan agreement under which we owe \$12 million and which matures in February 2015 unless converted into our Common Stock.

Any renegotiation of our existing secured loan may result in significant dilution of our existing shareholders.

The underwater visualization markets are highly competitive and we expect that competition will increase in these markets. Our ability to compete successfully in our markets depends on a number of factors, including:

- success in designing and subcontracting the manufacture of new products that implement new technologies;
- product quality, reliability and performance;
- customer support;
- ready availability of electronic components;
- price; and
- market acceptance of our products against our competitors' products.

If we cannot compete in all these areas, our revenues will suffer and we may not be profitable.

Our operating results may fluctuate because of a number of factors, many of which are beyond our control. Some of the factors that affect our results, but which are difficult to control or predict, are:

- ability to maintain our selling, general and administrative expenses at the \$6m level annually;
- fluctuations in the timing and amount of customer requests for product shipments;
- the reduction, rescheduling or cancellation of orders by customers;
- increases in the costs of manufacturing our products;
- the gain or loss of key customers;
- availability of capital;
- customer payment cycles;
- supply chain pressures;
- our ability to introduce and deliver new products and technologies on a timely basis;
- competitive pressures on selling prices;
- market acceptance of our products and our customers' products which incorporate our products; and

- the amounts and timing of investments in research and development and the ability of our research and development effort to design and incorporate new technologies into our existing technologies.

Our business, financial condition and operating results would be harmed if we do not achieve anticipated revenues. Our expense levels are expected to be relatively fixed and will be based on our expectations of future revenues. We have limited ability to reduce expenses quickly in response to any revenue shortfalls. Thus, a shortfall in revenues would have a deleterious effect on our survival.

Our customers are concentrated in small well-networked groups. The loss of one or more key customers or the diminished demand for our products from a key customer could significantly reduce our revenues and profits. A relatively small number of customers have accounted for a significant portion of our revenues. We have no long-term volume purchase commitments from any of our key customers. One or more of our key customers may discontinue operations as a result of consolidation, liquidation or otherwise. We cannot give assurance that our current customers will continue to place orders with us, or that we will be able to obtain orders from new customers.

Our markets are subject to rapid technological change, so our success depends heavily on our ability to develop and introduce new products. The markets for our products are characterized by:

- changing technologies;
- changing customer needs;
- competition; and
- product obsolescence.

The pursuit of technological advances may require substantial time and expense and may ultimately prove unsuccessful. If we are not successful in introducing such advances, we will be unable to bring to market new products and our revenues will suffer.

Our dependence on third-party manufacturing and supply relationships increases the risk that we will not have an adequate supply of products to meet demand or that our cost of materials will be higher than expected. The risks associated with our potential dependence upon third parties which manufacture, assemble or package certain of our products, include:

- reduced control over delivery schedules and quality;
- difficulties selecting and integrating new subcontractors;
- limited warranties on products supplied to us;
- potential increases in prices; and
- potential misappropriation of our intellectual property.

The complexity of our products may lead to errors, defects and bugs when they are first introduced, which could negatively impact our reputation with customers. Products as complex as ours may contain errors, defects and bugs when first introduced, when new versions are released or if there are flaws or

errors in the production process with subcontractors / suppliers. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of the products or result in a costly recall. Any of these events, could, in turn, damage our reputation and adversely affect our ability to retain existing customers and to attract new customers. Errors, defects or bugs could cause problems, interruptions, delays or cessation of sales to our customers causing a material adverse effect on our business, financial condition and results of operations.

Our future success depends in part on the continued service of our key design engineering, sales, marketing, manufacturing, and executive personnel and our ability to identify, hire and retain additional, qualified personnel. There is intense competition for well qualified personnel in the visualization industry, in particular hardware and software design, product and test engineers. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development of our business, or to replace engineers or other qualified personnel who may leave our employment in the future. Loss of the services of, or failure to recruit, key design engineers or other technical and management personnel could be significantly detrimental to our product development.

We have in the past and may in the future make acquisitions that will involve numerous risks. We may not be able to address these risks successfully without substantial expense, delay or other operational or financial problems. The potential risks involved with acquisitions include:

- potential dilution to our stockholders, or use of a significant portion of our available cash;
- diversion of management's attention in integrating acquired companies;
- failure to retain key personnel of the acquired companies;
- difficulty in completing an acquired company's in-process research or development projects;
- the cost associated with acquisitions including one time charges or increased debt or contingent liabilities;
- difficulties competing in markets that are unfamiliar to us;
- ability of the acquired companies to meet their financial projections; and
- unanticipated events or circumstances.

Any of these risks could materially harm our business, financial condition and results of operations. Future acquisitions could adversely affect operating results.

We may not be able to protect our intellectual property adequately. We rely in great part on patents to protect our intellectual property. We cannot provide assurance that our pending patent applications or any future applications will be approved, or that any issued patents will adequately protect the intellectual property in our products or will not be challenged by third parties, or, if challenged, will be found to be valid or enforceable. Furthermore, others may independently develop similar products or processes, duplicate our products or processes or design around any patents that may be issued to us. The failure or inability by us to meaningfully protect our intellectual property and to persecute

infringements of our intellectual property rights could have a material adverse effect on our business, financial condition and operating results.

Our marketplace contains companies with greater financial resources than ours. Our technology and our products based on our technology compete against other geophysical and sonar products manufactured by large corporations. These corporations have significantly greater financial resources than we do. Some of the top tier defense contractors, such as Raytheon, BAE Systems, Northrop Grumman and L3, have significant development capabilities and financial strength to create, develop, manufacture and market new competing products. We are also competing with those companies as they are constantly considering whether to outsource contracts to our engineering companies or to keep the tasks in-house.

An active market for our common stock may not develop, making it difficult for you to sell your stock.

There has been only a limited public market for our common stock. It is uncertain the extent to which an active trading market will develop or how liquid that market might become. An illiquid market for our stock may result in price volatility and poor execution of buy and sell orders for investors.

Item 9: The nature of products or services offered.

The markets and segments we address through our sub-sea Marine Technology Business are split between commercial and defense and are defined broadly as:

Commercial Seabed Survey

- oil & gas
- pipe and cable route surveys
- subsea construction
- academic research
- hydrographic charting
- dredging and mineral extraction

Defense & Security

- harbor security
- intruder detection and protection
- ship protection
- obstacle avoidance
- mine countermeasures
- naval hydrography

Product Lines in General

Our products are marketed under two distinct brands, “Coda” and “Octopus”, each with specific brand values and niche appeal. Coda branded products are generally feature-rich, sophisticated, professional, productivity enhancing, top-end products and, as such, the Coda brand is applied to the GeoSurvey™ and Echoscope® product lines. The Octopus brand applies to simple-to-use, rugged, “work-horse” products and covers the 760 series Geophysical Acquisition Systems, F180™ Position and Attitude Sensors and our range of thermal printers.

Data acquisition and interpretation systems

Coda GeoSurvey™ data acquisition and interpretation software provides feature rich solutions and productivity enhancing tools for the most exacting survey requirements, backed by 24/7 technical support. Designed specifically for side-scan and sub-bottom data acquisition, Coda GeoSurvey™ has been purchased by numerous leading survey companies throughout the world.

This product range includes:

GeoSurvey™ Acquisition products: A range of hardware and software solutions for field acquisition of sidescan sonar and sub-bottom profiler, which includes analogue and digital interfaces compatible with all geophysical survey systems. This is our original product range, and main products within this range include:

- DA2000, Sidescan sonar and sub-bottom profiler simultaneously
- DA1000, Sidescan sonar and sub-bottom profiler separately
- DA500, Sidescan sonar or sub-bottom profiler

GeoSurvey™ Productivity Suite: An integrated suite of software automating the tasks of analyzing, annotating and mosaicing complex data sets – thereby ensuring faster and more precise results.

Octopus Instruments: Simple, solid and robust solutions for sidescan sonar and sub-bottom profilers. Used throughout the world by leading survey companies, navies and academic organizations, Octopus instruments are ideal where minimal training and simple installation and set-up is paramount. Coupled with intuitive but powerful post processing software, the Octopus range meets the requirements of survey applications from the smallest inshore survey, rapid deployment naval reconnaissance to large scale site investigations.

This product range includes:

760 Series: A combined sidescan sonar and sub-bottom profiler acquisition system, for analogue and digital data acquisition. This product range brings together the latest hardware and software technology as a package and retains simplicity of operation. It is sold as four different variants:

- 760S, for combined sidescan sonar or sub-bottom profiler data acquisition;
- 760D, for combined sidescan sonar and sub-bottom profiler data acquisition;
- 460+, for sidescan sonar data acquisition only;
- 360+, for sub-bottom profiler data acquisition only.

460P Portable Sidescan Sonar Acquisition system and **460PX complete portable sidescan sonar** system. The splash-proof, rugged and highly portable design allows for operation on the smallest of boats and in the most demanding of conditions. Options include a portable 24V battery pack and integrated dual frequency sidescan (460PX).

Positioning Systems

The **Octopus F180™** applies technology originally developed for the extreme world of motor racing to the marine environment. Modifications and enhancements have resulted in a simple-to-use, off-the-shelf product that brings accurate positioning and motion data into extreme offshore conditions for precision marine survey applications worldwide. Variants within the F180™ series include the F190, exclusively configured for use 'inland', e.g. within ports and harbors, and the F185, with enhanced precision positioning to 2 cm accuracy (<1"). We also sell Octopus iHeave, an intelligent software product for dealing with long period ocean swell compensation, fully integrated with the F180™ series.

3-D Imaging

Our Echoscope® real-time 3D Imaging Sonar represents the Company's most exciting area for growth in the medium term.

Echoscope®, developed over 20 years, is a unique, patented technology delivering high resolution 3D images of the underwater environment in real time, with extremely accurate positioning. Comparatively, Echoscope® generates over 100 times more information than the nearest alternatives. Echoscope® is small (around the size of a brief case), connects to a regular PC and is low cost relative to most naval sonars of lesser performance, and gives significant benefits over other commercially available sonars. Substantial interest has already been shown in the product, particularly for defense applications in the United States, and for commercial applications worldwide. Key applications include:

- harbor defense, where the product is used to inspect vessels and harbor walls below sea level;
- examination of oil and gas installations on the sea-bed;
- location and navigation of areas where underwater construction is being undertaken;
- verification of the effects of dredging a channel in a harbour (for example);
- real time monitoring of moving objects in the water column, typically in construction or surveillance operations;
- forward looking obstacle avoidance, where the product is used to guide a vessel to avoid obstacles;

- swimmer identification, where the product is used to detect divers for defensive purposes or to find missing persons in water (rescue or recovery services).

We believe that the Echoscope® is unique, in that we are unaware of any other product with the capabilities of the Echoscope®. The heightened awareness of terrorist attacks over the last decade has resulted in a demand for practical, effective and rapid methods of detecting potential threats (explosives in harbors or on ship hulls). We believe that the Echoscope® is ideally suited for this task.

The Echoscope® systems will sometimes require additional items of equipment to form a complete solution allowing us to leverage existing products and services, such as motion sensors and imaging processing software, into a wider market, and this in turn offers further opportunity for other products from the portfolio, such as our F180™ positioning systems.

Most of the recent breakthroughs in application acceptance and client adoption are through the considerable investment we have made into the application software and visualization technology that we have developed. Several patented techniques have been developed that process the unique 3D image data from the Echoscope® and generate photograph-like images in real time to assist the instant decision making of the operators. In addition, we have successfully created and deployed a real time model tracking algorithm to allow the augmentation of real time sonar data with CGM (Computer Generated Models) for greater operator assistance, efficiency and safety and is particularly useful in laying acropodes or mattresses in underwater construction.

Unlike many competitors, we are fully leveraging the synergy between the hardware and the software which allows us to tailor solutions and provide custom development to our clients for their increased efficiency and commercial gain.

Our marine engineering businesses, Coda Octopus Martech Limited (based in Weymouth, England, United Kingdom) and Coda Octopus Colmek, Inc (based in Salt Lake City, Utah, USA) operate in the defense space. We provide engineering services to a wide variety of clients in the subsea and defense markets. A significant part of these services are provided to prime and second level defense contractors and are often for prototype productions which lead to long term manufacturing contracts. This arrangement often gives these companies preferred supplier status for long term manufacturing contracts and the obsolescence management for such customers. The engineering capabilities within our Group are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

Coda Octopus Martech Limited (Based in Weymouth, England, UK)

Martech provides bespoke design and manufacturing services. It operates in the very specialized niche of high quality design and manufacturing services mainly to the United Kingdom defense and nuclear industries. Its services are provided on a custom sub-contract basis where high quality and high integrity devices are required, but in quite small quantities. Martech is accredited to ISO 9001-2000 and Tick-IT.

An example of Martech's design and engineering services is the development of a ruggedized display unit in military vehicles capable of displaying variables such as wind speed, air temperature and humidity independent of the vehicle's computer.

In the past, the Company has designed products such as an air traffic management software system, military sonar test equipment, and equipment for production testing of sensors used in blood analysis equipment. Contracts ranged in amounts between a few thousand dollars up to approximately a million dollars.

In late 2010 Martech was awarded a significant contract to design and build two pre-production decontamination ovens which will become ground equipment for a major international military aircraft program. We are optimistic that we will secure the work for the production of these and that this will become a significant revenue stream for Martech over the coming years.

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

The Company enjoys certain pre-approvals to allow it to be short-listed for certain types of government work. Much of the more significant business gained by Martech is gained this way through the formal Government or government contractor tendering process.

Currently Martech is a key provider of various parts of our marine products and has been assisting in the further development of a number of those products.

As part of the Group's new management strategy to rehabilitate the Group, Martech entered into a restructuring program in October 2010 under which certain of its liabilities were consensually rescheduled over a long term period. This arrangement is expected to expire in three years time.

Coda Octopus Colmek, Inc (Based in Salt Lake City)

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

Colmek is a service provider of deep ocean and other engineering solutions, particularly in the fields of data acquisition, storage, transmission and display. It has grown and diversified since beginning its operations in 1977 and now provides services and products to a wide range of defense, research and

exploration organizations in the US. Colmek designs, manufactures and supports systems that are reliable and effective in multiple military and commercial applications where ruggedness and reliability under extreme operational conditions are paramount and where lives depend on accurate and precise information.

An example of the type of business conducted by Colmek is a contract to produce a system to monitor the build-up of ice on the bows of oil tankers in use in the Barents Sea. Colmek staff developed a monitoring system using strain-gauge sensors, attached directly to the hull of the vessel where temperatures could drop well below the specifications of standard, off-the-shelf, equipment. In the past, Colmek has also been engaged on projects such as the design and production of a pipeline inspection vehicle and helicopter-based mine hunting system incorporating sonar, laser, and acoustic payload configurations.

Colmek also markets some products:

Stinger™ family of Rugged Small-Form-Factor PCs

Colmek takes a unique "Total Systems Solutions" approach to meeting customers' requirements for rugged small-form-factor PCs. Typically our competitors try to fit standard products into complicated applications, while Colmek looks at all the requirements and builds the product accordingly. By taking a modular design approach, Colmek can formulate the best total solution for our customer/partner and do so economically. Colmek has successfully deployed Stinger products on Unmanned Aerial Systems (UAS), and shipboard for satellite-based tracking systems.

RhinoTuff™ family of Rugged Touch Screen Computers

The robust RhinoTuff™ rugged touch screen computer is built exclusively for reliable operation in the world's harshest environments. It is modular and user-definable affording maximum flexibility. This all-weather, all terrain, all-in-one PC thrives in a field where the average "tough" computer is simply not tough enough, including, mining and construction sites, oil fields, marine environments, and military battlefields.

Rugged Chassis/Enclosures:

The chassis and enclosures offered by Coda Octopus Colmek are fully customizable to military/industrial needs. Colmek is a key supplier on high profile programs including Raytheon's Phalanx Close-In Weapons System (CIWS) and Northrop Grumman's airborne mine hunting sonar AN/AQS-24. We also offer a variety of enclosures technologies.

Other products offered by Colmek include subsea telemetry & data acquisition systems, rugged workstations, analog-to-digital converters, Endurance™ rugged routers, Marathon™ rugged switches, rugged LCD displays, and rugged printers.

Item 10 Properties

Lakeland, Florida, USA.

Our corporate offices, which co-locate with our wholly owned subsidiary, Coda Octopus Products, Inc., are located at 4020 Kidron Road, Lakeland, Florida 33811, USA. The lease provides for a monthly rent of \$1,200 and expires on November 30, 2012.

Salt Lake City, Utah, USA. Our wholly owned subsidiary, Coda Octopus Colmek, Inc. d/b/a Colmek Systems Engineering, leases 7,170 square feet of business premises at 1775 and 1785 South 4130 West, Suite A, Salt Lake City, Utah 84104, comprising both office space and manufacturing and testing facilities. The lease provides for a monthly rental of \$6,900 excluding property tax and utilities and is during the term subject to an annual rental increase of 3% every April. The lease expires on September 30, 2014.

Edinburgh, Scotland, United Kingdom. Our wholly owned United Kingdom subsidiary, Coda Octopus Products Ltd, leases business premises comprising 4,099 square feet and located at 2nd Floor, Anderson House, 1 Breadalbane Street, Edinburgh, EH6 5JR, United Kingdom. The space houses sales and support staff and our software product development team. The building is located close to the Port of Leith and the Firth of Forth, which is convenient for conducting trials and demonstrations of our products. The lease provides for an annual rental for September 2011 – September 2012 of the equivalent of \$48,278, for the year September 2012 – September 2013 an annual rent of the equivalent of \$64,370 and for the year September 2013 – September 2014 an annual rent of the equivalent of \$77,244 and expires on September 26, 2016. The rent is stated in British Pounds and is therefore subject to exchange rate fluctuations. Pursuant to the provisions of the lease, we may subject to giving 9 months' notice terminate the lease without penalty on or after the third anniversary of the lease agreement. Our wholly owned subsidiary, Coda Octopus R&D Ltd, is also located here.

Weymouth, England, United Kingdom. Our wholly owned United Kingdom subsidiary, Coda Octopus Martech Ltd, leases business premises located at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset, DT4 9TH, United Kingdom, comprising 5,000 square feet. This space comprises both office space and manufacturing and testing facilities. The lease provides for an annual rent of the equivalent of \$47,076 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations) and expires on September 30, 2013. The lease provides for an annual rent increase of 3% of the last annual rent. Our wholly owned subsidiary, Coda Octopus (United Kingdom) Holdings Ltd, is also located here.

Bergen, Norway. Our wholly owned Norwegian subsidiary, Coda Octopus R&D AS, leases 2,370 square feet of business premises in a recently refurbished maritime business center directly on the waterway

connected to Bergen harbor. This facility serves as our Research and Development center with purpose-built laboratories for electronic and mechanical development. The lease provides for a rental of the equivalent of \$50,800 (the rent is stated in Norwegian Kroners and is therefore subject to exchange rate fluctuations) per annum and expires on May 31, 2015.

All non-US rents are stated at the prevailing exchange rates.

Item 11: Legal proceedings

None at the date of this filing.

Item 12: The name of the chief executive officer, members of the board of directors, as well as control persons.

Michael Hamilton, Director and Chairman of the Board, Maywood, New Jersey, USA

Mr Hamilton was appointed by the Company's Board to fill an existing vacancy on its Board of Directors on June 7, 2010. He was also elected to be the Company's non-executive Chairman of the Board and also to act as the Chairman of the Company's audit committee. From December 2007 through to October 2009, Mr Hamilton has been the Chairman and Chief Executive Officer of MMC Energy, Inc., a NASDAQ listed company. He was also the non-executive Chairman of the Board of MXenergy, Inc. from September 2009 through to June 2011, a retail gas and electric marketing company with operations in 14 states in the U. S. and two Canadian provinces. From 2003 to 2007, he was a senior managing director at FTI Consulting. From June 1, 1990 to February 28, 2003, Mr Hamilton was a partner at PriceWaterhouseCoopers (previously Price Waterhouse) where he acted as the partner in charge of that firm's utility audit and tax practice. In addition, he was the audit engagement partner on a number of his Firm's largest energy and utility audit clients. Mr Hamilton has been continuously involved in regulated industry-related activities since 1972. He has worked with numerous regulated industry companies, including companies in the electric, gas, water and telecommunications industries. He has been substantively involved in issues related to the competitiveness of the electric utility industry as it fundamentally restructured from a monopoly position to a competitive position. His activities have included a wide range of advisory, special studies, rate-making, tax and testimony activities. He has also been responsible for the day-to-day operations in virtually all of the financial operations of an investor-owned electric utility. Mr Hamilton holds a B.S. in Accounting from St. Francis College.

Annamarie Gayle, LL.B, LLM, Group Chief Executive Officer and Director

Ms Gayle rejoined the Company as Group Chief Executive Officer and Director in September 2011. Prior to her appointment she has spent the last two years assisting with the restructuring of our Group. She previously served with the Group as Senior Vice President of Legal Affairs between 2006 and 2007.

Earlier in her career she worked for a major London law practice, the United Nations and the European Union and more recently for one of the smaller investment banks. Ms Gayle has a strong background in restructuring and has spent more than 12 years in a number of countries where she has been the lead adviser to a number of transitional administrations on privatizing banks and reforming state owned assets in the CEE countries including banking, infrastructure and telecommunications assets. Ms Gayle has also managed a number of large European Union funded projects.

Ms Gayle brings to the Company a wealth of experience of corporate governance, large scale project management, restructuring, strategy, structuring and managing corporate transactions ranging from main market IPOs to disposals and acquisitions.

Ms Gayle holds a 2.1 Law degree gained at the University of London and a 2.1 Masters of Law degree from Cambridge University. She is a qualified solicitor to practice law in England & Wales.

Geoff Turner, Director, Group Affairs Officer, England, United Kingdom

Mr Turner has been with the Company since May 2006 and has during this time had a number of roles including the Company's Group Chief Executive Officer and Interim Chief Financial Officer, Senior Vice President - Mergers and Acquisitions and President European Operations. In March 2011 he was appointed as Group Affairs Officer. Previously, he served as a consultant from November 2005 to April 2006. He has been involved in technology businesses for over 30 years, in both technical and commercial roles. He spent the 13 years with General Electric (GE) Information Services, the then global market leader in Electronic Commerce, where he was Director of Business Development for Europe, Middle East and Africa. During this time, in addition to his business development roles he held posts as Software Products Director, and in global channel sales management. Since leaving GE in 1999, Mr Turner has been involved as a shareholder and a consultant in a number of businesses ranging from financial services businesses to a provider of supply chain management software.

Dr Rolf Kahrs Hansen, Chief Scientist and Director, Bergen, Norway

Dr Hansen has been with Coda Octopus R&D AS (formerly OmniTech AS) since the acquisition of OmniTech AS by us in December 2002. Dr Hansen is one of the inventors of our key patent "*a method for producing a 3D image*" and is the Chief Scientist at Coda Octopus R&D AS, the Company's wholly owned Norwegian subsidiary. During this time he has also been a consultant for EuroSleep AS, Norway, an entity that manages several hospital departments specialized in obstructive sleep apnea diagnosis and treatment, as well as a consultant for MRA AS, Norway, and MRA-Medical Ltd, United Kingdom. MRA produce and sell the ApneaGraph system for diagnosis of sleep apnea. In his capacity as Chief Scientist of Coda Octopus R&D AS, Dr Hansen was intimately involved in the development of acoustical underwater 3D sonar systems and the development and production of battery powered data acquisition system. He also is very involved in the Company's patent strategy. Dr Hansen holds a doctoral degree

from the University of Bergen and a M.Sc. from the University of Trondheim, Norwegian Institute of Technology, Department of Applied Physics.

Blair Cunningham, Chief Technology Officer and Head of R&D Operations, United Kingdom

Mr Cunningham has served as Chief Technology Officer and Head of R&D Operations of Coda Octopus Group, Inc., since 2005 and Technical Manager of Coda Octopus Products Ltd between July 2004 and July 2005. From March 1992 to December 2008 he served as a Director of Softworks Business Systems Solutions Ltd, a software company based in Aberdeen, Scotland, which developed turnkey software solutions for large public companies. Mr Cunningham has over 20 years technical and commercial experience in software and network technologies, providing solutions for public companies including RBS, Abbot Group plc, Danop/DONG, Bulthaup GmbH and Manchester Ship Canal Company. Mr Cunningham received an HND in Computer Science in 1989 from Moray College of Further Education, Elgin, Scotland.

Item 13: Financial information for the issuer's most recent fiscal period.

Unaudited financial statements for Coda Octopus Group, Inc. for the fiscal year ended October 31, 2011 have been posted through the OTC Disclosure and News Service as follows:

Publish date	Report Title	Period End Date
March 8, 2012	Annual Report	October 31, 2011

The said financial statements are incorporated in this annual report statement by reference.

Item 14: Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

Annual report for Coda Octopus Group, Inc. for the period ended October 31, 2009 (audited) and unaudited financial statements for the period ended October 31, 2010 have been posted through the OTC Disclosure and News Service as follows:

Publish date	Report Title	Period End Date
January 29, 2010	Annual Report	October 31, 2009
March 2, 2012	Annual Report	October 31, 2010

The said annual report and financial statements are incorporated in this disclosure statement by reference.

Item 15: Beneficial Owners.

The following persons are beneficially owning more than five percent (5%) of the issuer's common stock:

Shareholder	Number of Common Stock / (%)
Greenhouse Investments Limited 1st floor, Liberation Station The Esplanade St Helier, Jersey JE2 3AS British Channel Islands	23,576,986 / (31.7%)
Vision Opportunity Master Fund Limited 317 Madison Avenue Suite 1220 New York NY 10017	3,806,900 / (5.1%)

Item 16: The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:

Promoter:

None

Counsel:

Louis A. Brilleman, P.C.
1140 Avenue of the Americas, 9th Floor
New York, NY 10036
Phone: 212-584-7805

Accountant or Auditor:

The operations of each operational subsidiary are audited in its local jurisdiction: Coda Octopus Products Limited are audited under the laws of United Kingdom, Coda Octopus Martech Limited are audited under the laws of the United Kingdom, Coda Octopus Colmek, Inc. are audited under the laws of the State of Utah and Coda Octopus R&D AS under the laws of Norway. Coda Octopus Group does not have any material operations in its own rights and as such has not been the subject of an audit since for the period ended October 31, 2010.

Item 17 Management discussion and analysis of financial condition and results of operations

Background

Our Group has been the subject of restructuring since October 2009.

Since the Group became a public company trading on the Pink Sheet in 2004 and moved its headquarters to New York in 2005, it has reported continuing and significant losses.

A new senior management and board were put in place in September 2009 to address the losses, other historical problems of the Group and ensure its continuity as a going concern. Since September 2009, the focus and strategy of the new management has been to restructure the Group by (i) negotiating the removal of certain barriers to new investments that were contained in a series of securities purchase agreements; (ii) reducing the Group's cost base significantly; (iii) simplifying the Group structure; (iv) restructuring some of the Group's debts; and (v) taking the business to sustainable growth and profitability.

In respect of its cost reduction strategy, the new management focused initially on stripping out the costs associated with having an extended New York administrative center (including the rent and salaries of the then senior management that was based in New York). Closing the New York administrative center resulted in approximately \$1,200,000 per annum savings in salaries associated with our headquarters operations. We have drastically reduced the number of headquarters employees and consultants and have now co-located our headquarters with our US marine technology operational arm, Coda Octopus Products, Inc. in Lakeland, Florida.

The Selling, General and Administrative (SG&A) expenses of the Group have been gradually brought down to a level which positions the Group operations to be viable and become profitable in the near future. As we cautiously increase sales and marketing staff, we envisage SG&A of the Group will continue to be under \$6,000,000 compared to:

<u>Fiscal year – November 1 – October 31</u>	<u>SG&A</u>	<u>Revenues</u>	<u>SG&A / Revenues</u>
2007/08(Audited) – Full Fiscal Year	\$13.2m	\$17.0m	78%
2008/09 (Audited) - Full Fiscal Year	\$11.22m	\$13.2m	85%
2009/10 (Unaudited) – Full Fiscal Year	\$7.7m	\$11.5m	67%
2010/11 (Unaudited) – Full Fiscal Year	\$5.3m	\$15.7m	34%

Initially the new management was faced with a Group which, besides SG&A approximating closely to revenues, had (as at October 2009) Accumulated Payables and Accrued Expenses and Other Current Liabilities of \$7,016,203. This was made up of \$4,626,164 of accrued expenses and other current liabilities, which included provision for settlement of a number of disputes and other matters, and

\$2,390,039 of payables. This figure was a threat to the Group's continued existence and required us, over the restructuring period to, amongst other things, consensually reschedule some of the Group's liabilities with its creditors, particularly in Coda Octopus Martech and to use most of the income generated in the course of business to satisfy these.

Since October 2009 we have managed to reduce the \$4,626,164 of Accrued Expenses and Other Current Liabilities to \$1,547,428 as of October 31 2011, a reduction of 65%, whilst the Payables have also reduced slightly to \$2,248,438.

As of October 31, 2011 the remaining items within our Accrued Expenses and Other Current Liabilities comprises ordinary and current items such as sales pre-payments and provision for taxes and other matters.

A key achievement of our restructuring has been to reschedule in October 2010 certain liabilities of our wholly owned subsidiary Coda Octopus Martech Limited ("Martech"). In this connection, \$945,000 has been consensually rescheduled over four years. This amount has now been reduced to approximately \$700,000. Martech pays approximately \$200,000 per year. As of the date of this document, Martech is current under this arrangement, and will need to keep current to avoid adverse consequences.

Since February 21, 2008 our Balance Sheet also includes a \$12 million convertible secured debt ("Debt"). A primary focus of our restructuring has been to rehabilitate our income statement in such a way as to reach a level where the annual coupon obligations associated with this Debt are serviceable. Current revenues and costs levels of the Group are in keeping with the obligations of servicing this Debt. The failure to maintain our SG&A costs at around \$6million per annum and achieve revenues in excess of \$16m per annum would threaten our ability to sustain our profitability going forward.

Comparison of full year ended October 31, 2011, full year ended October 31, 2010.

The consolidated financial statements as a whole are unaudited. However, our operating entities within the Group (Colmek, Martech, Coda Octopus Products Limited, Coda Octopus R&D Limited and Coda Octopus R&D AS) have all been audited in the jurisdictions of their incorporation.

Background

- i. The Group is subject to influence from at least three factors: the price of oil, which affects the propensity of Oil and Gas companies and their suppliers to purchase technology such as that sold by the Group's Marine Products Business, the allocation of funds to defense procurement by governments in the UK and USA and the general economic environment.
- ii. The Group has no external sources of liquidity available, and as such is reliant upon its ability to sell its products and services and to gain profit and cash for its operations. The Group is currently seeking to obtain certain overdraft facilities from its bankers. We, however, cannot guarantee that these discussions will be successful.
- iii. There are no material commitments in the Group for significant items of capital expenditure.

- iv. Other than the factors mentioned above there are no known trends, events, or uncertainties that are reasonably expected to have a material impact on sales or revenues or income from continuing operations.
- v. There are no known elements of income or loss that do not arise from continuing operations.
- vi. There are no known causes for material changes from period to period in one or more line items of the financial statements.
- vii. The Group's business is not subject to significant seasonality.

Revenues for the full year ended October 31, 2011 compared to full year ended October 31, 2010

Full Year Revenues to October 31, 2011*)	Percentage Change	Full Year Revenues to October 31, 2010*)
\$15,723,830	Increase of 36.6% ("Increase")	\$11,509,933

*) Not audited

We believe that the Increase in revenues shown above is due to a number of factors including:

- an increase in sales of our real time 3D sonar product, the Echoscope® and its derivative, the Underwater Inspection System™; and
- (through the availability of short term financing in March which enabled us to convert our order book to revenues; and
- more generally, our cost savings program which we started in 2009 has generated more cash to be applied in fulfilling our orders.

Gross Margins for the full year ended October 31, 2011 compared to full year ended October 31, 2010

Full Year Gross Margins October 31, 2011*)	Full Year Gross Margins October 31, 2010*)
49.6% (gross profit of \$7,800,572)	46.3% (gross profit of \$5,334,300)

*) Not audited

This increase in gross margin percentage reflected a different mix of sales in our businesses and better trading terms with some of our significant suppliers. In particular the slowdown in the oil and gas market and in government procurement generally had a direct impact on our product sales in the early part of the prior fiscal year.

Research and Development (R&D) for the full year ended October 31, 2011 compared to full year ended October 31, 2010

Full Year R&D costs to October 31, 2011*)	Percentage Change	Full Year R&D costs to October 31, 2010*)
\$1,340,547	Reduction of 24.0% ("Reduction")	\$1,762,035.

*) Not audited

This Reduction in our Research and Development spending is consistent with our cost reduction program in the period. This reduced level of spending still allows us to devote considerable R&D resources to bring forward product variants of our core technology that we plan to introduce to the market over the next several months.

Selling, General and Administrative Expenses (SG&A) for the full year ended October 31, 2011 compared to full year ended October 31, 2010

Full Year SG&A to October 31, 2011*)	Percentage Change	Full Year SG&A to October 31, 2010*)
\$5,276,021	Reduction of 31.0% ("Reduction")	\$7,652,768

*) Not audited

This Reduction reflects activity under the cost reduction plan that has been executed between 2009 and 2011. It is likely that during fiscal year 2012 the Company will start to increase some of its costs, most likely in the areas of sales and marketing.

Key Areas of SG&A and R&D Expenditure across the Group for the full year ended October 31, 2011 compared to the full year ended October 31, 2010

Expenditure	October 31, 2011*)	October 31, 2010*)	Percentage Change
Wages and Salaries	\$3,839,955	\$4,088,685 ¹⁾	Reduction of 6.1%
Legal and Professional Fees (including accounting, audit and investment banking services)	\$949,098	\$1,022,275	Reduction of 7.2%
Travel Costs	\$225,646	\$371,191	Reduction of 39.2%
Rent for our various locations	\$406,219	\$615,202	Reduction of 34.0%
Marketing	\$110,207	\$212,108	Reduction of 48.0%

*) Not audited

¹ This figure includes a positive adjustment of \$335,898 without which the salary figure for fiscal year 2010 would have been \$4,424,583. This would therefore have yielded a reduction of 13.2%.

The management anticipates going forward that we will start to prudently reinvest in some of these areas, such as sales and marketing, which will probably involve selectively increasing other areas of expenditure, such as travel and marketing costs. These figures are therefore likely to increase in the fiscal year 2012.

Operating Income for the full year ended October 31, 2011 compared to full year ended October 31, 2010.

Full Year October 31, 2011*)	Percentage Change	Full Year October 31, 2010*)
\$1,184,004	--	(\$4,080,503)

*) Not audited

This turnaround is attributable to the restructuring of the business under which SG&A was reduced over time, our ability to maintain our gross margins and an increase in sales of our real-time 3D sonar product, the Echoscope® and its derivative products such as the Underwater Inspection System (UIS™).

Other Income for the full year ended October 31, 2011 compared to full year ended October 31 2010.

Full Year October 31, 2011*)	Percentage Change	Full Year October 31, 2010*)
\$1,131,901	Reduction of 25.0%	\$1,509,636

*) Not audited

Our income statement contains unusually high amounts relating to Other Income. We anticipate a large portion of the Other Income will be non-recurring going forward. These amounts result largely from our restructuring during the fiscal years 2010 and 2011 under which we realized certain reductions of our commitments under various arrangements. Our expectation is that Other Income will reduce to approximately \$250,000 per annum henceforth. If the Company is to remain profitable going forward, we will need to achieve revenues from our operations in excess of \$16m. We will also need to maintain our SG&A expenditures at around the \$6m level.

Interest Expense for the full year ended October 31, 2011 compared to full year ended October 31, 2010

Full Year October 31, 2011*)	Percentage Change	Full Year October 31, 2010*)
\$1,962,691	Reduction of 2%	\$2,005,836

*) Not audited

In both years we have included amortization of the 30% redemption premium for our convertible debenture.

Net Income for the full year ended October 31, 2011 compared to and Net Loss for the full year ended October 31, 2010

Full Year October 31, 2011*)	Percentage Change	Full Year October 31, 2010*)
\$1,096,175	-	(1,778,316)

*) Not audited

This turnaround is attributable to the restructuring of the business under which SG&A was reduced over time, our ability to maintain our gross margins and an increase in sales of our real-time 3D sonar product, the Echoscope® and its derivative products such as the Underwater Inspection System (UIS™).

Dividends and Other Stock Charges.

No dividends were paid on the Series A Preferred stock in the period, nor were there any paid in the prior year.

Off Balance Sheet Arrangements

There are no material off balance sheet arrangements in the Group, nor were there in the prior year.

Item 18: Material Contracts.

- A. Every material contract, not made in the ordinary course of business that will be performed after the disclosure statement is posted through the OTC Disclosure and News Service or was entered into not more than two years before such posting.

Also include the following contracts:

- 1) Any contract to which directors, officers, promoters, voting trustees, security holders named in the disclosure statement, or the Designated Advisor for Disclosure are parties other than contracts involving only the purchase or sale of current assets having a determinable market price, at such market price;
- 2) Any contract upon which the issuer's business is substantially dependent, including but not limited to contracts with principal customers, principal suppliers, and franchise agreements;
- 3) Any contract for the purchase or sale of any property, plant or equipment for consideration exceeding 15 per cent of such assets of the issuer; or
- 4) Any material lease under which a part of the property described in the disclosure statement is held by the issuer.

None.

- B. Any management contract or any compensatory plan, contract or arrangement, including but not limited to plans relating to options, warrants or rights, pension, retirement or deferred compensation or bonus, incentive or profit sharing (or if not set forth in any formal document, a

written description thereof) in which any director or any executive officer of the issuer participates shall be deemed material and shall be included; and any other management contract or any other compensatory plan, contract, or arrangement in which any other executive officer of the issuer participates shall be filed unless immaterial in amount or significance.

None.

Item 19: Articles of Incorporation and Bylaws.

- A. A complete copy of the issuer’s articles of incorporation or in the event that the issuer is not a corporation, the issuer’s certificate of organization. Whenever amendments to the articles of incorporation or certificate of organization are filed, a complete copy of the articles of incorporation or certificate of organization as amended shall be filed.
- B. A complete copy of the issuer’s bylaws. Whenever amendments to the bylaws are filed, a complete copy of the bylaws as amended shall be filed.

The Articles of Incorporation and Bylaws of the Company will be filed in conjunction with this statement and are incorporated herein as exhibits to this statement.

Item 20: List of securities offerings and shares issued for services in the past two years.

Date	Name	Purpose	Number of Shares	Value of issued Shares
4 May 2011	Louis Brilleman	For services rendered	300,000 shares of common stock	\$7,200
Between 28 October and 15 December 2010	A number of warrant holders	In exchange for (i) the surrender of warrants; and (ii) the cancellation of the share purchase agreements pursuant to which these purchasers had acquired the rights to the issuance of the warrants which contained certain price protection and anti-dilution provisions and operated as a barrier to new investment on commercially viable terms.	23,887,858 shares of common stock	\$528,840
15 November 2010	Fort Advisors	For services rendered	750,000 shares of common stock	\$27,000

Item 21 Issuer's Certifications.

I, Annmarie Gayle, certify that:

1. I have reviewed this annual report of Coda Octopus Group, Inc.;
2. Based on my knowledge, this disclosure statement 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 8, 2012

/s/ Annmarie Gayle _____
Group CEO

CODA OCTOPUS GROUP, INC.

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CONSOLIDATED BALANCE SHEETS
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CONSOLIDATED STATEMENT OF CASH FLOWS
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY FOR THE TWO YEARS
ENDED OCTOBER 31, 2011 and 2010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Coda Octopus Group, Inc

Consolidated Accounts

	<u>Twelve Months Ended October 31st, 2011</u>		<u>Twelve Months Ended October 31st, 2010</u>
<u>Income Statement</u>	<u>Group Totals</u>		<u>Group Totals</u>
Net Revenue	15,723,830		11,509,933
Cost of Revenue	7,923,258		6,175,633
Gross Profit	7,800,572		5,334,300
Research & Development	1,340,547		1,762,035
Selling, General & Administrative	5,276,021		7,652,768
Operating Income/Loss	1,184,004	-	4,080,503
Other Income (Expense)			
Other Income	1,131,901		1,509,636
Interest Expense	- 1,962,691	-	2,005,836
Gain (loss) on change in fair value of derivative liability	471,542		2,557,546
Unrealized gain on sale of investment in marketable securities	- 12,194		2,125
Realized gain on the sale of marketable securities			37,000
Total other income (expense)	- 371,443		2,100,471
Income (Loss) before income taxes	812,562	-	1,980,032
Income tax refund	283,614		201,716
Net Income (Loss)	1,096,175	-	1,778,316
Preferred Stock Dividends			
Series A			-
Series B			
Beneficial Conversion Feature			
Net Income (Loss) Applicable to Common Shares	<u>1,096,175</u>	-	<u>1,778,316</u>
Income (Loss) per share, basic and diluted	<u>0.01</u>		<u>-0.03</u>
Weighted average shares outstanding	<u>74,339,665</u>		<u>60,614,958</u>
Comprehensive loss			
Net income (loss)	1,096,175	-	1,778,316
Foreign currency translation adjustment	- 6,645		449,648
Unrealized gain (loss) on investment	- 12,194		2,125
Comprehensive income (loss)	<u>1,077,336</u>	-	<u>1,326,543</u>

See accompanying notes to these unaudited consolidated financial statements

	<u>October 31st, 2011</u>	<u>October 31st, 2010</u>
<u>Balance Sheet</u>	<u>Group</u>	<u>Group</u>
	<u>Totals</u>	<u>Totals</u>
Assets		
Current Assets		
Cash and Cash Equivalents	1,398,289	215,204
Restricted Cash, Note 2	-	827,266
Short Term Investments, Note 4	2,681	14,875
Accounts Receivables, net of allowance for doubtful accounts	3,203,361	1,863,842
Inventory	2,002,631	1,780,114
Unbilled Receivables, Note 3	705,391	587,015
Other current assets, Note 4	355,462	180,597
Prepaid Expenses	235,899	218,059
Total Current Assets	7,903,713	5,686,972
Property and Equipment, net, Note 5	137,426	114,469
Goodwill and other intangibles, net, Note 6	3,852,388	3,921,847
Total Assets	11,893,527	9,723,288
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable, trade	2,248,438	2,036,340
Accrued Expenses and other current liabilities	1,547,428	4,057,951
Short term loan payable	1,726,507	452,119
Loans and note payable, long term, Note 11	14,756,860	14,131,747
Warrant liability, Note 8	1,842	473,384
Deferred revenues, Note 3	2,996,370	1,214,183
Sundry Creditors	281,219	394,213
Total Current Liabilities	23,558,664	22,759,937
Loans and note payable, long term, Note 11	-	-
Total Liabilities	23,558,664	22,759,937
Contingencies and Commitments		
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, 74,339,665 and 60,614,958 shares issued and outstanding as of October 31, 2011 and October 31, 2010, respectively	74,339	60,615
Additional paid-in capital	47,436,163	47,167,905
Accumulated other comprehensive loss	- 985,988	- 979,342
Accumulated deficit / surplus	- 58,189,658	- 59,285,833
Treasury Stock		
Capital Surplus		
Currency Translation Adjustments	-	-
Total Stockholder's Equity	- 11,665,137	- 13,036,649
Total liabilities and stockholders' deficit	11,893,527	9,723,288

See accompanying notes to these unaudited consolidated financial statements

Cash Flow	Twelve Months Ended October 31st, 2011	-	Twelve Months Ended October 31st, 2010
<u>Cash Flows from Operating Activities</u>			
Net income/(loss)	1,096,175	-	1,778,316
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	35,365		7,656
Stock based compensation	-		66,771
Change in fair value of warrant liability	- 471,542	-	1,810,757
Financing costs	625,113		898,224
Impairment of investment of marketable securities	12,194	-	2,125
Gain on sale of investment in marketable securities	-	-	37,000
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Short-Term Investments			
Accounts receivable	- 1,339,520		170,036
Inventory	- 222,517		1,018,311
Prepaid expenses	- 17,843		18,574
Unbilled receivables and Other assets	- 293,238		208,421
Increase (decrease) in current liabilities:			
Accounts payable and accrued expenses	- 1,429,169	-	939,423
Deferred revenues	799,940		809,912
Due to related parties	-		-
Net cash (used)/generated by operating activities	- 1,205,042	-	1,369,716
<u>Cash Flows from Investing Activities</u>			
Purchases of property and equipment	- 80,210	-	12,954
Purchases of intangible assets	91,348		1,720,393
Cash subject to restriction	827,266		166,815
Net cash provided by/(used in) investing activities	838,404		1,874,254
<u>Cash Flows from Financing Activities</u>			
Proceeds from/(repayments of) loans	1,274,387		452,091
Proceeds for sale of marketable security	-		49,750
Shares issued for warrants and services	281,981	-	677,766
Common stock subscribed	-	-	96,350
Deferred payment related to acquisitions	-	-	10,218
Net cash (used)/provided by financing activities	1,556,368	-	282,493
Effect of exchange rate changes on cash	- 6,646	-	282,726
Net (decrease)/increase in cash	1,183,085	-	60,681
Cash and cash equivalents, beginning of period	215,204		275,885
Cash and cash equivalents, end of period	1,398,289		215,204

See accompanying notes to these unaudited consolidated financial statements

CONSOLIDATED STATEMENT OF STOCKHOLDERS (DEFICIT) EQUITY FOR THE TWO YEARS ENDED OCTOBER 31, 2011 and 2010

	Preferred Stock Shares	Series A 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	6.10	49,000,244	48,999.67	96,350.14	51,766,494.68	-	696,616.51	- 59,130,335.98	- 7,915,102.09
Shares issued for compensation			375,000	375.00	-	41,625.00				42,000.00
Fair value of options issued as compensation						24,771.00				24,771.00
Shares issued for warrants			11,239,714	11,240.00		264,637.00		-		275,877.00
Cumulative effect of warrant liability						- 4,929,623.03		1,622,817.00		- 3,306,806.03
Write off Stock Subscriptions					- 96,350.14					- 96,350.14
Foreign currency translation adjustment							-	282,726.00		- 282,726.00
Net loss								- 1,778,314.00		- 1,778,314.00
Balance, October 31, 2010	6,287	6.10	60,614,958	60,614.67	-	47,167,904.65	-	979,342.51	- 59,285,832.98	- 13,036,650.26
Shares issued for warrants			12,674,915	12,674.92		240,288.08		-		252,963.00
Shares issued for compensation			1,050,000	1,050.00	-	33,150.00				34,200.00
Stock buy back			- 208	- 0.21		- 5,179.79				- 5,180.00
Foreign currency translation adjustment							-	6,645.08		- 6,645.08
Net Income								1,096,175.47		1,096,175.47
Balance, October 31, 2011	6,287	6.10	74,339,665	74,339.38	-	47,436,162.94	-	985,987.59	- 58,189,657.51	- 11,665,136.87

See accompanying notes to these unaudited consolidated financial statements

CODA OCTOPUS GROUP, INC.
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
October 31, 2011 and 2010

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 are unaudited.

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, re-domiciled following a reverse merger with The Panda Project to Delaware in 2004. The Company’s name was changed from The Panda Project to Coda Octopus Group, Inc. We are a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in 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, 2011 and 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 when equipment is delivered, and for installation and other services as they are performed.

Our contracts sometimes require customer payments in advance of revenue recognition. These 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 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 \$10,000 for the years ended October 31, 2011 and 2010 respectively. Despite these allowances we have not realized any actual bad debt expense during these periods.

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, 2011 and 2010:

	2011	2010
Raw materials	\$ 1,076,249	\$ 855,211
Work in process	\$ 178,096	\$ 132,993
Finished goods	\$ 748,286	\$ 791,910
Total inventory	\$ 2,002,631	\$ 1,780,114

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.

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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 disposal 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, 2011 and 2010.

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, 2011, we recorded tax credits totaling \$283,614 and during 2010 tax credits totaling \$201,716.

Other Operating Expenses

We incurred costs of nil and \$55,140 as non-recurring fees and expenses in connection with our financings and acquisitions for October 31, 2011 and 2010, respectively.

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. At the end 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 recognize 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, 2011 and 2010 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. 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.

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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.

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 gain and/or loss, respectively, amounted to a gain of \$0.01 for the year ended October 31, 2011 and a loss of (\$0.03) for year ended October 31, 2010.

Liquidity

The Company's financial statements have been prepared assuming it will continue as a going concern.

For the fiscal year ended October 31, 2011, the Company had:

- Accumulated Deficit of \$58,189,658
- Negative Working Capital of \$15,654,951
- Capital Deficit of \$11,665,137

We generated a deficit in cash flow from operations of \$1,205,042 in the fiscal year ended October 31, 2011 against a deficit of \$1,369,716 in the fiscal year ended October 31, 2010.

The Company has been dependent upon the ability to generate revenue from the sale of its products and services. Management believes that based upon the 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 October 31, 2012; and collectability of its receivables in the ordinary course of business the Company will be able to continue its operations through October 31, 2012. 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.

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 \$705,391 and \$587,015 as of October 31, 2011 and 2010, respectively.

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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 a liability under Deferred Revenue of \$2,627,137 and \$898,091 as of October 31, 2011 and 2010, respectively.

Revenue received for the sale of equipment includes a provision for warranty and is treated as deferred revenue. We also sell extended warranty coverage to our customers. 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 a liability under Deferred Revenue of \$369,233 and \$341,794 as of October 31, 2011 and 2010, respectively.

NOTE 4 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total \$355,462 and \$180,597 at October 31, 2011 and 2010, respectively. These totals comprise the following:

	2011	2010
Deposits*	\$ 98,704	\$ 98,704
Value added tax (VAT) receivable	0	\$ 22,582
Other receivables	\$ 256,758	\$ 59,311
Total	<u>\$ 355,462</u>	<u>\$ 180,597</u>

*This amount represents amounts held by third parties to secure our obligations undertaken in the ordinary course of business, such as rent deposits.

NOTE 5 - FIXED ASSETS

Property and equipment at October 31, 2011 and 2010 is summarized as follows:

	2011	2010
Machinery and equipment	\$ 839,481	\$ 849,583
Less Accumulated depreciation	\$ (702,055)	\$ (733,420)
Net property and equipment assets	<u>\$ 137,426</u>	<u>\$ 114,470</u>

Depreciation expense recorded in the statements of operations for the years ended October 31, 2011 and 2010 is \$35,365 and \$95,858, respectively.

NOTE 6 - INTANGIBLE ASSETS AND GOODWILL

Goodwill and Other Intangible Assets are evaluated on an annual basis. If 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 October 31, 2011 and 2010 is:

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	2011	2010
Customer relationships (weighted average life of 10 years)	\$ 724,243	\$ 784,243
Non-Compete Agreements (weighted average life of 3 years)	\$ 228,651	\$ 278,651
Patents (weighted average life of 10 years)	\$ 95,191	\$ 7,539
Total amortized identifiable intangible assets - gross carrying value	\$ 1,048,085	\$ 1,139,433
Less accumulated amortization	\$ (577,805)	\$ (630,384)
Net	\$ 470,280	\$ 509,049
Residual value	\$ 470,280	\$ 509,049

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 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. As part of our restructuring program we closed down the Tactical operations and all goodwill and intangible assets associated with Tactical were written off in the fiscal year ended October 31, 2010.

Estimated annual amortization expense as of October 31, 2011 is as follows:

2012	\$ 76,696
2013	\$ 76,696
2014 and thereafter	\$ 316,888
Total	\$ 470,280

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$78,959 and \$350,588 for the years ended October 31, 2011 and 2010, 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 as of October 31, 2011 and \$3,382,108 as of October 31, 2010. The carrying amount of goodwill for the period ended October 31, 2011 and year ended October 31, 2010 are recorded below

	2011	2010
Beginning goodwill balance at November 1:		
CodaOctopus Colmek, Inc.	\$ 2,038,669	\$ 2,038,669
CodaOctopus Martech Ltd	\$ 1,281,124	\$ 998,591
CodaOctopus Products Ltd	\$ 62,315	\$ 62,315
Goodwill recorded upon acquisition:		
CodaOctopus Tactical Intelligence, Inc.		
Dragon Design Ltd		\$ 282,533
Balance at October 31, 2011 and 2010	\$ 3,382,108	\$ 3,382,108

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.

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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 arise chiefly from the acquisition of two wholly owned subsidiaries that comprise the Company's professional services reporting units - Martech and Colmek. Goodwill impairment evaluation was conducted at the end of the financial year 2011 and management's considered opinion is that the carrying values are reasonable.

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 74,339,665 and 60,614,958 shares of common stock as of October 31, 2011 and 2010 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, 2011 and October 31, 2010 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.

As of October 31, 2011 the Company has 6,287 shares of Series A Preferred Stock in issue.

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, 2011, we have no shares of Series B Preferred Stock outstanding.

Common Stock

During the year ending October 31, 2011 we issued to two service providers 1,050,000 shares of common stock, valued at \$34,200 for consultancy and financing services rendered.

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During the year ending October 31, 2011 we also issued 12,648,144 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 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).

NOTE 8 - WARRANTS AND STOCK OPTIONS

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

Warrants	Year ended October 31, 2011		Year ended October 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	24,119,418	\$ 1.47	32,583,418	\$ 1.42
Granted during the period	-	-	-	-
Terminated during the period	(18,660,000)	\$ 1.46	(8,464,000)	1.27
Outstanding at the end of the period	5,459,418	\$ 1.49	24,119,418	\$ 1.47
Exercisable at the end of the period	5,459,418	\$ 1.49	24,119,418	\$ 1.47

The number and weighted average exercise prices of warrants outstanding as of October 31, 2011 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	150,000	0.10	150,000
1.30	2,654,709	0.34	2,654,709
1.50	-	-	-
1.70	2,654,709	0.34	2,654,709
1.80	-	-	-
Totals	5,459,418	0.48	5,459,418

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Stock Options	Year ended October 31, 2011		Year ended October 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	1,522,900	\$ 1.19	5,595,900	\$ 1.18
Granted during the period	-	-	50,000	1.05
Terminated during the period	(962,900)	1.05	(4,106,000)	1.18
Outstanding at the end of the period	560,000	\$ 1.43	1,539,900	\$ 1.19
Exercisable at the end of the period	560,000	\$ 1.43	1,522,900	\$ 1.19

The number and weighted average exercise prices of stock purchase options outstanding as of October 31, 2011 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	30,000	0.50	30,000
1.05	50,000	3.60	50,000
1.30	215,000	1.68	215,000
1.50	55,000	0.55	55,000
1.70	210,000	0.66	210,000
1.80	-	-	-
Totals	560,000	1.29	560,000

NOTE 9 - INCOME TAXES

The Company's, deferred tax liabilities and assets are determined based on the difference between the 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 \$27,929,854 which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset relating to the carry forward is approximately \$9,496,150. 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 probable that the benefits of these 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 relating 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, 2011 are as follows:

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Non-Current	2011
Net operating losses carried forward	\$ 11,548,542
Valuation allowance	\$ (11,548,542)
Net deferred tax asset	<u><u>\$ -</u></u>

The Company recognized no adjustment for unrecognized tax provisions.

NOTE 10 - CONTINGENCIES AND COMMITMENTS

Litigation

There are no litigations against the Company.

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 \$1,017,641, with the minimum future rentals due under these leases as of fiscal year 1 November 2011 as follows:

2012	\$ 306,360
2013	\$ 296,527
2014	\$ 250,084
2015	\$ 164,670
Total	<u><u>\$1,017,641</u></u>

NOTE 11 - NOTES AND LOANS PAYABLE

A summary of notes payable at October 31, 2011 and 2010 is as follows:

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	2011	2010
<p>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.</p>	\$14,596,500	\$13,966,153
<p>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.</p>	160,360	165,594
<p>Total</p>	\$14,756,860	\$14,131,746
<p>Less: current portion</p>	0	0
<p>Total long-term portion</p>	<u>\$14,756,860</u>	<u>\$14,131,747</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

We are also owed by related parties a sum of nil at October 31, 2011 compared to nil at October 31, 2011. During 2011 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 \$40,000 for this facility. The Cash Control Framework Agreement was terminated by the parties in March 2011 and there are no further administrative fees payable by the Company for this facility

NOTE 13 - ACQUISITIONS

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 and Dragon Design Ltd was dissolved in the year ended October 31, 2011.

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NOTE 14 – SUBSEQUENT EVENTS

In February 2012 we issued 100,000 shares of our common stock to one of our directors as part of his compensation for serving in this position. Under the terms of appointment of this director we undertook to issue these shares on the first anniversary of his appointment.