



# **Coda Octopus Group, Inc.**

## **Quarterly Report**

**November 1, 2011 – January 31, 2012**

### **Address:**

4020 Kidron Road  
Suite #3  
Lakeland  
Florida 33811  
Phone: + 1 801 973 9136  
Fax: + 1 801 973 9285  
Symbol: CDOC  
Three Months Ending 01/31

**March 26, 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 the address of its principal executive offices.**

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.

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](mailto:info@codaoctopusgroup.com)  
<http://group.codaoctopus.com/>

**Item 2: Shares outstanding.**

Securities outstanding: Common stock.

Trading symbol: CDOC

CUSIP: 19188U 10 7

**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:	<b>March 22, 2012</b>	<b>January 31, 2012</b>	<b>October 31, 2011</b>	<b>October 31, 2010</b>
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	74,439,665	74,339,665	74,339,665	60,614,958
(iv) Freely tradable shares (public float);	34,615,664	30,808,764	30,808,764	19,054,098
(v) Total number of shareholders of record	301	300	300	401

## Series A Preferred Stock

(i) Period end date:	<b>March 22, 2011</b>	<b>January 31, 2011</b>	<b>October 31, 2011</b>	<b>October 31, 2010</b>
(ii) Number of shares authorized;	5,000,000	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding;	6,287	6,287	6,287	6,287
(iv) Freely tradable shares (public float);	-0-	-0-	-0-	-0-
(v) Total number of beneficial shareholders	5	5	5	5
(vi) Total number of shareholders of record	5	5	5	5

### Item 3: Interim financial statements.

Unaudited interim financial statements for Coda Octopus Group, Inc. for the period ended January 31, 2012 are included in this Quarterly Report at pages 14 through to 16. The unaudited financial statements contain:

1.	Condensed consolidated statements of operations and comprehensive income (loss) for the three months ended January 31, 2012 (Unaudited) and 2011 (Unaudited)
2.	Condensed consolidated balance sheet as of January 31, 2012 (Unaudited) and October 31, 2011 (Unaudited);
3.	Condensed consolidated statement of stockholders' deficit for the three months ended January 31, 2012 (Unaudited)
4.	Condensed consolidated statements of cash flow for the three months ended January 31, 2012 (Unaudited) and 2011 (Unaudited); and
5.	Notes to consolidated financial statements (Unaudited).

The unaudited consolidated financial statements include the accounts of Coda Octopus and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financials 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.

#### **Item 4: Management discussion and analysis of financial condition and results of operations**

##### **Forward-Looking Statements**

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

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

##### **General Overview**

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

##### **Recent Developments**

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 had 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 profitable. As we cautiously increase sales and marketing staff and launch new products based on our patented technology, we envisage SG&A of the Group will continue to be under \$6,000,000 compared to:

<b><u>Fiscal year – November 1 – October 31</u></b>	<b><u>SG&amp;A</u></b>	<b><u>Revenues</u></b>	<b><u>SG&amp;A / Revenues</u></b>
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%
2011/2012 (Unaudited) – Three Months ended January 31, 2012	\$1.1m	\$4.1m	26%

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.

As of January 31 201 we have managed to reduce the \$4,626,164 of Accrued Expenses and Other Current Liabilities to \$1,331,529, a reduction of 71%, whilst the Payables have also reduced to \$1,575,442. As of January 31, 2012 the remaining items within our Accrued Expenses and Other Current

Liabilities comprise 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”). Under the terms of the Secured Loan Agreement relating to the Debt, the Company has an obligation to pay 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 \$6 million per annum and achieve revenues in excess of \$16m per annum would threaten our ability to sustain our profitability going forward. As of January 31, 2012, the principal Debt amount plus accrued and unpaid interest amounted to \$14,980,072.

## Results from Operations

### *Comparison of the Three Months Ended January 31 2012 to the Three Months Ended January 31 2011*

#### *Revenues for the Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011*

<b>Revenues for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>Revenues for the Three Months ended January 31, 2011*)</b>
\$4,122,067	Increase of 14.9% (“ <b>Increase</b> ”)	\$3,588,558

\*) Unaudited

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

- We are generally seeing an uptake in our real time 3D sonar product, the Echoscope® and the Underwater Inspection System (UIS™) in the market place; Following the restructuring which commenced in 2009 and the reduction in our SG&A expenditure, there is more cash available to convert our order book to revenues.



**Gross Margins for the Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011**

<b>Margins for the Three Months ended January 31, 2012*)</b>	<b>Margins for the Three Months ended January 31, 2011*)</b>
46.6% (gross profit of \$1,920,808)	51.3% (gross profit of \$1,839,192)

\*) Unaudited

This reduction in gross margin percentage over the year reflected a different mix of sales in our businesses and the disadvantages of operating under cash constraints. With the rehabilitation of the Group following restructuring we have started a program of seeking more advantageous terms with our suppliers. We expect this to bring benefits during the latter half of Fiscal Year 2012 and into 2013, along with improved margins in the engineering businesses due to reduced material costs and would expect to see Gross Margins improving overall.

**Research and Development (R&D) for the Three Months ended January 31, 2012 compared to the Three Months ended January 31 2011**

<b>R&amp;D costs for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>R&amp;D costs for the Three Months ended January 31, 2011*)</b>
\$356,764	Reduction of 14.8% ("Reduction")	\$418,898

\*) Unaudited

The Reduction in our Research and Development spending is consistent with our cost reduction program in the period. We would modest increase in R&D to take account of further investments in product development, technology advancement and the establishment of a new production facility.

**Selling, General and Administrative Expenses (SG&A) for the Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011**

<b>SG&amp;A for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>SG&amp;A for the Three Months ended January 31, 2011*)</b>
\$1,063,455	Reduction of 40.3% ("Reduction")	\$1,780,150

\*) Unaudited

The Reduction in SG&A 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 modestly 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 Three Months ended January 31 2012 compared to the Three Months ended January 31, 2011**

<b>Expenditure</b>	<b>January 31, 2012*)</b>	<b>Percentage Change</b>	<b>January 31, 2011*)</b>
Wages and Salaries	\$906,195	Reduction of 28.1%	\$1,259,593
Legal and Professional Fees (including accounting, audit and investment banking services)	\$107,175**	Reduction of 77.3%	\$471,152
Travel Costs	\$29,961	Reduction of 65.7%	\$87,431
Rent and office costs for our various locations	\$170,152	Reduction of 4.0%	\$177,188
Marketing	\$25,100	Increase of 80.9%	\$13,878

\*) Unaudited

\*\*) We would expect that we will increase our spending in both the categories of Legal and Professional Fees significantly at the end of the year when we resume with having our consolidated financial statements audited and also in the category of Marketing to reflect the costs of launching a new product anticipated in this fiscal year.

The management anticipates going forward that we will start to prudently reinvest in some of these areas, such as sales and marketing, as we have above, which will probably involve selectively increasing other areas of expenditure, such as travel costs. We would also anticipate our legal and professional fees increasing as we become fully audited again, probably at the end of this Fiscal Year. These figures are therefore likely to increase in the fiscal years 2012 and 2013.

**Operating Income and/or Loss for the Three Months ended January 31, 2012 compared to the Three Months ended January 31 2011**

<b>Operating Income for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>Operating Loss for the Three Months ended January 31, 2011*)</b>
\$500,589	--	(359,856)

\*) Unaudited

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 Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011***

<b>Other Income for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>Other Income for the Three Months ended January 31, 2011*)</b>
\$397,774	Increase of 944%	38,100

\*) Unaudited

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 going forward. It is the management's belief that 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 Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011***

<b>Interest Expense for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>Interest Expense for the Three Months ended January 31, 2011*)</b>
\$462,180	Increase of 10.3%	\$419,118

\*) Unaudited

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

***Net Income or Loss for the Three Months ended January 31, 2012 compared to the Three Months ended January 31, 2011***

<b>Net Income for the Three Months ended January 31, 2012*)</b>	<b>Percentage Change</b>	<b>Net Loss for the Three Months ended January 31, 2011*)</b>
\$436,430	-	(\$468,670)

\*) Unaudited

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™).

## **Inflation and Foreign Currency.**

The Company maintains in local currency: US Dollars for the parent holding Company in the United States of America and the US operations, Pounds Sterling for UK operations and Norwegian Kroner for Norwegian operations.

The Company's operations are split between the United States and United Kingdom through its wholly-owned subsidiaries, with significant proportion of revenues and costs incurred outside the USA. As a result, fluctuations in currency exchange rates may significantly affect the Company's sales, profitability and financial position when the foreign currencies of its international operations are translated into U.S Dollars for financial reporting. We are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may, or will, affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. As differing portions of our revenues and costs are denominated in foreign currency, movements could impact our margins, by example, decreasing our foreign revenues when the US Dollar strengthens and not correspondingly decreasing our expenditures. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risks.

During the Three Months Ended January 31, 2012, a summary of our material foreign currency transactions include:

	UK £	\$	NKr	\$	Total \$
Revenues from foreign subsidiary	1,899,481	2,971,587	10,000	1,708	2,973,295
Direct Costs of foreign subsidiaries	1,630,573	2,550,902	1,370,124	234,017	2,784,919

The prevailing exchange rates during the Three Months Ended January 31, 2012 ranged between \$1.5627 and \$1.5777 for Pound Sterling and between \$0.1680 and \$0.1721 to the Norwegian Kroner for the same period. The above are calculated at \$1.5644 and \$0.1708. The above figures are calculated at \$1.5644 and \$0.1708 and are the average exchange rates over the reporting period.

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

### *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 5: Legal Proceedings.**

There are no legal proceedings in progress within the Group at the date of this filing.

**Item 6: Defaults upon Senior Securities.**

None

**Item 7: Other Information.**

There is no material information for the Three Months Ended January 31, 2012 other than is disclosed in this Quarterly Report.

**Item 8: Exhibits**

There are no arrangements or contracts made that are out of the normal course of business.

**Item 9: Issuer's Certifications.**

I, Annmarie Gayle, certify that:

1. I have reviewed this Quarterly Report for the Three Months Ended January 31, 2012 of Coda Octopus Group, Inc.;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of 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 Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this Quarterly Report.

Date: March 26, 2012

/s/ Annmarie Gayle  
Group CEO

**CODA OCTOPUS GROUP, INC.**

**Index to consolidated unaudited financial statements**

Condensed consolidated statements of operations and comprehensive loss/gain for the Three Months ended January 31, 2012 (Unaudited) and 2011 (Unaudited)

Condensed consolidated balance sheets as of January 31, 2012 (Unaudited) and October 31, 2011 (Unaudited)

Condensed consolidated statement of stockholders' deficit for the Three Months ended January 31, 2012 (Unaudited)

Condensed consolidated statements of cash flows for the Three Months ended January 31, 2012 (Unaudited) and 2011 (Unaudited)

Notes to consolidated financial statements (Unaudited)

Coda Octopus Group, Inc

Consolidated Accounts

	Three Months Ended January 31st, 2012	Three Months Ended January 31st, 2011
<u>Income Statement</u>	<u>Group Totals</u>	<u>Group Totals</u>
Net Revenue	4,122,067	3,588,558
Cost of Revenue	2,201,259	1,749,365
<b>Gross Profit</b>	<b>1,920,808</b>	<b>1,839,192</b>
Research & Development	356,764	418,898
Selling, General & Administrative	1,063,455	1,780,150
<b>Operating Income/Loss</b>	<b>500,589</b>	<b>(359,856)</b>
<b>Other Income (Expense)</b>		
Other Income	397,774	38,100
Interest Expense	(462,180)	(419,118)
Gain (loss) on change in fair value of derivative liability	248	273,904
Unrealized gain on sale of investment in marketable securities		(1,700)
Realized gain on the sale of marketable securities		
<b>Total other income (expense)</b>	<b>(64,159)</b>	<b>(108,814)</b>
Income (Loss) before income taxes	436,430	(468,670)
Provision for income taxes		-
<b>Net Income (Loss)</b>	<b>436,430</b>	<b>(468,670)</b>
Preferred Stock Dividends Series A Series B Beneficial Conversion Feature		
Net Income (Loss) Applicable to Common Shares	<b>436,430</b>	<b>(468,670)</b>
Income (Loss) per share, basic and diluted	<u>0</u>	<u>0</u>
Weighted average shares outstanding	74,339,665	74,039,873
Comprehensive loss		
Net income (loss)	436,430	(468,670)
Foreign currency translation adjustment	34,385	621,106
Unrealized gain (loss) on investment	-	(1,700)
Comprehensive income (loss)	<u>470,815</u>	<u>150,736</u>

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

	<u>January 31st, 2012</u>	<u>October 31st, 2011</u>
	<u>Group Totals</u>	<u>Group Totals</u>
<b><u>Balance Sheet</u></b>		
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	1,593,775	1,398,289
Short Term Investments	2,681	2,681
Accounts Receivables, net of allowance for doubtful accounts	1,715,756	3,203,361
Inventory	1,853,383	2,002,631
Unbilled Receivables, Note 2	786,117	705,391
Other current assets, Note 3	376,089	355,462
Prepaid Expenses	447,606	235,899
<b>Total Current Assets</b>	<b>6,775,407</b>	<b>7,903,714</b>
Property and Equipment, net, Note 4	122,709	137,426
Goodwill and other intangibles, net, Note 5	3,806,704	3,852,388
<b>Total Assets</b>	<b>10,704,820</b>	<b>11,893,528</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Current Liabilities</b>		
Accounts Payable, trade	1,575,442	2,248,438
Accrued Expenses and other current liabilities	1,331,529	1,547,428
Short term loan payable	1,254,722	1,726,507
Loans and note payable, long term, Note 11	15,137,849	14,756,860
Warrant liability, Note 8	1,595	1,842
Deferred revenues, Note 2	2,581,820	2,996,370
Sundry Creditors	-	281,219
<b>Total Current Liabilities</b>	<b>21,882,957</b>	<b>23,558,664</b>
Loans and note payable, long term, Note 11	-	-
<b>Total Liabilities</b>	<b>21,882,957</b>	<b>23,558,664</b>
Contingencies and Commitments, Note 10		
Stockholders' deficiency:		-
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of January 31, 2012 and October 31, 2011, 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 74,339,665 shares issued and outstanding as of January 31, 2012 and October 31, 2011, respectively	74,339	74,339
Additional paid-in capital	47,452,348	47,436,163
Accumulated other comprehensive loss	(951,603)	(985,988)
Accumulated deficit / surplus	(57,753,228)	(58,189,658)
Treasury Stock		
Capital Surplus		
Currency Translation Adjustments	-	-
<b>Total Stockholder's Equity</b>	<b>(11,178,137)</b>	<b>(11,665,137)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>10,704,820</b>	<b>11,893,527</b>

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



<u>Cash Flow</u>	<b>Three Months Ended January 31st, 2012</b>	<b>Three Months Ended January 31st, 2011</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Net income/(loss)	436,430	(468,670)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	31,716	60,892
Stock based compensation	16,185	279,963
Change in fair value of warrant liability	(248)	(273,904)
Financing costs	380,988	384,435
Impairment of investment of marketable securities	-	1,700
Bad debt expense	-	-
Gain on sale of investment in marketable securities	-	-
Loss on sale of assets		
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Short-Term Investments		
Accounts receivable	1,487,605	(424,772)
Inventory	149,249	62,414
Prepaid expenses	(211,707)	(67,249)
Unbilled receivables and Other assets	(101,354)	(177,747)
Intercompany receivables	-	-
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(1,128,475)	200,767
Deferred revenues	(456,187)	300,136
Due to related parties	-	-
Sundry creditors		1,300
Net cash (used)/generated by operating activities	604,203	(120,734)
<b><u>Cash Flows from Investing Activities</u></b>		
Purchases of property and equipment	(30,796)	(110,688)
Purchases of intangible assets	59,480	(8,652)
Cash subject to restriction	-	827,266
Cash acquired from acquisitions	-	-
Net cash provided by/(used in) investing activities	28,684	707,926
<b><u>Cash Flows from Financing Activities</u></b>		
Proceeds from/(repayments of) loans	(471,784)	(150,000)
Proceeds for sale of marketable security	-	-
Shares issued for warrants and services	-	-
Common stock subscribed	-	-
Deferred payment related to acquisitions	-	-
Preferred stock dividend	-	-
Net cash (used)/provided by financing activities	(471,784)	(150,000)
Effect of exchange rate changes on cash	34,385	621,105
Net (decrease)/increase in cash	<b>195,487</b>	<b>1,058,297</b>
Cash and cash equivalents, beginning of period	1,398,289	215,204
Cash and cash equivalents, end of period	<b>1,593,776</b>	<b>1,273,501</b>

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

Condensed consolidated statement of stockholders' deficit for the Three Months Ended January 31, 2012 (Unaudited)

	Preferred Stock Series A Shares	Amount	Common Stock Shares	Amount	Stock Subscribed	Additional Paid-in Capital	Accumulated Other Comprehensive loss	Accumulated Deficit	Total	
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
Fair value of options issued as compensation			-	-	-	16,185.00				16,185.00
Foreign currency translation adjustment							34,384.89			34,384.89
Net Income								436,429.57		436,429.57
Balance, January 31, 2012	6,287	6.10	74,339,665	74,339.38	-	47,452,347.94	-	951,602.70	- 57,753,227.94	- 11,178,137.40

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

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

**General**

The accompanying are unaudited condensed consolidated financial statements. As such they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three month period ended January 31, 2012, are not necessarily indicative of the results that may be expected for the year ended October 31, 2012. The unaudited condensed financial statements should be read in conjunction with the consolidated unaudited financial statements of October 31, 2011 and footnotes thereto.

**Business and Basis of Presentation**

Coda Octopus Group, Inc. ("we", "us" "our company" or "Coda") was formed under the laws of the State of Florida in 1992 and re-domiciled following a reverse merger with The Panda Project to Delaware in 2004. 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 unaudited condensed consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

**Accounts Receivable**

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was \$nil for the period ended January 31, 2012 and \$10,000 for the year ended October 31, 2011. Despite these allowances we have not realized any actual bad debt expense during these periods.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory is comprised of the following components at January 31, 2012 and October 31, 2011:

	<b>Jan 31 2012</b>	<b>Oct 31 2011</b>
Raw materials	\$ 698,717]	\$ 1,076,249
Work in process	\$ 425,631]	\$ 178,096
Finished goods	\$ 729,035]	\$ 748,286
Total inventory	\$ 1,853,383]	\$ 2,002,631

**Earnings Per Share ("EPS")**

*Net income (loss) per share*

Dilutive common stock equivalents consist of shares issuable upon conversion of warrants and the exercise of the Company's stock options and warrants. Common stock equivalents derived from shares issuable in conversion of the warrants are not considered in the calculation of the weighted average number of common shares outstanding

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because the adjustments in computing income available to common stockholders would result in a loss. Accordingly, the diluted EPS would be computed in the same manner as basic earnings per share.

The following reconciliation of net income and share amounts used in the computation of loss per share for the three months ended January 31, 2012

	<b>Three Months Ended Jan 31, 2012,</b>
Net income used in computing basic net income per share	\$ 436,430
Impact of assumed assumptions:	
Gain on warrant liability marked to fair value	\$ 247
Net income in computing diluted net gain or loss per share:	\$ 436,430

Per share basic and diluted net income amounted to \$0.01 for the period ended January 31, 2012. Per share basic and diluted net gain amounted to \$0.01 for the period ended October 31, 2011.

**Liquidity**

As of January 31, 2012, we had:

- Cash and Cash Equivalents of \$1,593,775;
- Working Capital Deficit of \$15,107,551;
- Deficiency in Stockholders' Equity of \$11,178,137;
- Accumulated Deficit of \$57,753,228
- For the three month period ended January 31, 2012 we had net income of \$436,430 and positive cash flow from our operations of \$604,203.

The Company is dependent upon its ability to generate revenue from the sale of its products and services to generate cash to cover operations.

If the Company's financial resources from operations are insufficient, the Company will require additional financing in order to execute its operating plan and continue as a going concern. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to repay its debt obligations, implement its current plans for reorganization, or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

**NOTE 2 - 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 \$786,117 and \$705,391 as of January 31, 2012 and October 31, 2011 respectively.

Our Deferred Revenue of \$2,581,820 consists of the categories below.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheet. These amounts are stated on the balance sheet as Deferred Revenue of \$2,059,690 and \$2,627,137 as of January 31, 2012 and October 31, 2011 respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These

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amounts are stated on the balance sheet as Deferred Revenue of \$522,130 and \$369,233 as of January 31, 2012 and October 31, 2011 respectively.

**NOTE 3 - OTHER CURRENT ASSETS**

Other current assets on the balance sheet total 376,089 and \$355,462 at January 31, 2012 and October 31, 2011 respectively. These totals comprise the following:

	<b>Jan 31 2012</b>	<b>Oct 31 2011</b>
Deposits *	\$ 98,704	\$ 98,704
Value added tax (VAT)	\$ 0	\$ 0
Other receivable	\$ 277,385	\$ 256,758
<b>Total</b>	<b>\$ 376,089</b>	<b>\$ 355,462</b>

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

**NOTE 4 - FIXED ASSETS**

Property and equipment at January 31, 2012 and October 31, 2011 is summarized as follows:

	<b>Jan 31 2012</b>	<b>Oct 31 2011</b>
Machinery and equipment	\$ 888,885	\$ 839,583
Accumulated depreciation	\$ 766,176	\$ (702,055)
<b>Net property and equipment assets</b>	<b>\$ 122,709</b>	<b>\$ 137,426</b>

Depreciation expense recorded in the statement of operations for the period ended January 31, 2012 and year ended October 31, 2011 is \$9,524 and \$35,365, respectively.

**NOTE 5 - INTANGIBLE ASSETS AND GOODWILL**

Goodwill and Other Intangible Assets are evaluated on an annual basis, and when there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations. We have conducted a goodwill assessment in this period and based on the methodology used by the Company we have concluded that goodwill was not impaired as at January 31, 2012 and therefore remains unchanged.

The identifiable intangible assets acquired and their carrying value at January 31, 2012 and October 31, 2011 is:

	<b>Jan 31, 2012</b>	<b>Oct 31, 2011</b>
Customer relationships (weighted average life of 10 years)	\$ 694,503	\$ 724,243
Non-compete agreements (weighted average life of 3 years)	198,911	278,651
Patents (weighted average life of 10 years)	\$ 95,191	\$ 95,191
Licenses (weighted average life of 2 years)	\$ 0	\$ 0
	\$	\$
Total amortized identifiable intangible assets - gross carrying value	\$ 988,605	\$ 1,048,085
Less accumulated amortization	\$ (564,009)	\$ (577,805)
	\$	\$
<b>Net</b>	<b>\$ 424,596</b>	<b>\$ 470,280</b>
<b>Residual value</b>	<b>\$ 424,596</b>	<b>\$ 470,280</b>

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Estimated annual amortization expense as of January 31, 2012 is as follows:

2012	\$ 76,696
2013	\$ 76,696
2014	\$ 76,696
2015 and thereafter	\$ 194,508
<b>Total</b>	<b>\$ 424,596</b>

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$19,740 and \$78,959 for the period ended January 31, 2012 and year ended October 31, 2011, respectively. Goodwill is not being amortized.

**NOTE 6 - CAPITAL STOCK**

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

During the period November 1, 2011 to January 31, 2012 no shares of common stock were issued by the Company.

The Company has issued and outstanding 74,439,665 shares of common stock as of March 22, 2012.

**Other Equity Transactions**

Common stock options which entitle the holder to purchase under their terms have lapsed or cancelled due to staff departure as follows:

<b>Period</b>	<b>Number of Options Cancelled</b>
Number of options which expired or were cancelled in the 12 months period ended October 31, 2011	962,900
Period ended January 31, 2012	25,000

**NOTE 7 - WARRANTS AND STOCK OPTIONS**

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

Warrants	Three months ended January 31, 2012		Year ended October 31, 2011	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	5,459,418	\$ 1.49	24,119,418	\$ 1.47
Granted during the period	—	—	—	—
Terminated during the period	(1,750,000)	1.47	(18,660,000)	1.46
Outstanding at the end of the period	3,709,418	\$ 1.50	5,459,418	\$ 1.49
Exercisable at the end of the period	3,709,418	\$ 1.50	5,459,418	\$ 1.49

The number and weighted average exercise prices of warrants outstanding as of January 31, 2012 are as follows:

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted Average Contractual Life (Yrs)</u>	<u>Total Exercisable</u>
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**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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0.50	-	-	-
0.58	-	-	-
1.00	-	-	-
1.30	1,854,709	0.17	1,854,709
1.70	1,854,709	0.17	1,854,709
<b>Totals</b>	<b>3,709,418</b>	<b>0.35</b>	<b>3,709,418</b>

Stock Options	Three Months ended January 31, 2012		Year ended October 31, 2011	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	560,000	\$ 1.43	1,522,900	\$ 1.19
Granted during the period	—	—	-	-
Terminated during the period	(25,000)	1.43	(962,900)	\$ 1.05
Outstanding at the end of the period	535,000	\$ 1.43	560,000	\$ 1.43
Exercisable at the end of the period	535,000	\$ 1.43	560,000	\$ 1.43

The number and weighted average exercise prices of stock purchase options outstanding as of January 31, 2012 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
1.00	30,000	0.24	30,000
1.05	50,000	3.35	50,000
1.30	215,000	1.42	215,000
1.50	30,000	0.75	30,000
1.70	210,000	0.75	210,000
<b>Totals</b>	<b>535,000</b>	<b>1.43</b>	<b>535,000</b>

**NOTE 8 – DERIVATIVE LIABILITY**

The Company has assessed its outstanding equity-linked financial instruments and has concluded that, effective November 1, 2009, the value of our warrants will need to be recorded as a derivative liability due to the fact that the conversion price is subject to adjustment based on subsequent sales of securities.

The cumulative effect of the change in accounting principle on November 1, 2009 includes an increase in our derivative liability related to the fair value of the conversion feature of \$2,353,893. Fair value at November 1, 2009 was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 1.06%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 302.22%; (4) an average expected life of the warrants of 2.22 years and (5) estimated fair value of common stock of \$0.08 per share.

At January 31, 2012 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at July 31, 2011 is \$1,595. The fair value of the conversion features was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.13%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 323%; (4) an average expected life of the conversion feature of 0.44 years and (5) estimated fair value of common stock of \$0.01 per share.

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We have recorded a positive value of \$248 during three months ended January 31, 2012 related to the change in fair value during this period.

**NOTE 9 - INCOME TAXES**

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

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$25,549,246 as of October 31, 2011, which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately \$9,496,150, as of October 31, 2011. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management which is based upon the earning history of the Company it is more likely than not that the benefits will not be realized.

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate \$3,202,189 with no expiration. The deferred tax asset related to the carry-forward is approximately \$11,584,542. The Company has provided a valuation reserve against the full amount of the benefits, because in the opinion of management based upon the earning history of the Company it is more likely than not that the benefits will not be realized.

Components of deferred tax assets as of January 31, 2012 and October 31, 2011 are as follows:

<b>Non-Current</b>	<b>Jan 2012</b>	<b>2011</b>
Net Operating Loss Carry Forward	\$ 11,584,542	\$ 11,584,542
Valuation Allowance	\$(11,584,542)	\$(11,584,542)
Net Deferred Tax Asset	<u>\$ —</u>	<u>\$ —</u>

**NOTE 10 - CONTINGENCIES AND COMMITMENTS**

**Litigation**

As of the date of this filing we have no litigation pending.

**Operating Leases**

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2015. Future minimum lease obligations are approximately \$941,051, with the minimum future rentals due under these leases as of January 31, 2012 as follows:

2012	\$ 229,770
2013	\$ 296,527
2014	\$ 250,084
2015 and thereafter	\$ 164,670
Total	<u>\$ 941,051</u>

**Concentrations**

We had no concentrations of purchases or sales of over 5% during the period ended January 31, 2012.



**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 - NOTES AND LOANS PAYABLE**

A summary of notes payable at January 31, 2012 and October 31, 2011 is as follows:

**Jan 31, 2012    Oct 31, 2011**

<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> <p>The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note for £100,000; interest rate of 12% annually; repayable at borrower’s instigation or convertible into common stock when the share price reaches \$3.</p>	<p>\$ 14,980,072    14,596,500</p>
<p>Total</p>	<p>\$157,777    160,360</p> <p>\$ 15,137,849    \$ 14,756,860</p>
<p>Current portion &amp; other loan notes</p>	<p>\$15,137,849    14,756,860</p>
<p>Total long-term borrowings</p>	<p>\$            \$0    \$            0</p>

**NOTE 12 –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 we undertook to issue these shares on the first anniversary of his appointment.