



Coda Octopus Group, Inc.

Annual Report

November 1, 2011 – October 31, 2012

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Symbol: CDOC

SIC Code: 3812-Search, Detection, Navigation, Guidance, Aeronautical and Nautical Systems and Instruments

Fiscal Year 10/31

February 4, 2013

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 #4
Lakeland
Florida 33811
Phone: + 1 801 973 9136
Fax: + 1 801 973 9285
Email: directors@codaoctopusgroup.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 July 13, 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: 19188U 10 7

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 of record held. 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:	February 4, 2013	October 31, 2012	October 31, 2011
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	89,754,976	89,754,976	74,339,665
(iv) Freely tradable shares (public float);	35,787,482	35,787,482	30,808,764
(v) Total number of shareholders of record	293	293	300

Series A Preferred Stock

(i) Period end date:	February 4, 2013	October 31, 2012	October 31, 2011
(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

As of January 29, 2013, the Company had issued and outstanding 89,754,976 shares of common stock and 6,287 shares of preferred stock.

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

Our transfer agent is registered under the Exchange Act.

PART 3

Item 8: Business

Overview

Coda Octopus Group, Inc. and its subsidiaries (“the Company”, “we”, “us”, “our Group”) are experts in sub-sea marine technology. We are also in marine engineering provided through two of our wholly owned subsidiaries. Our SIC Code is 3812 - Search, Detection, Navigation, Guidance, Aeronautical and Nautical Systems and Instruments

Our Group structure is shown on page 9 below.

Our Group comprises the sub-sea marine technology operations which are conducted through our two wholly owned subsidiaries, Coda Octopus Products Limited (United Kingdom) and Coda Octopus Products, Inc. (USA.). We believe that our sub-sea marine technology operations have a unique market lead over our sonar 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®.

We believe the software used with the Echoscope® to be cutting edge providing unparalleled real time images of subsea environments. We further 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 wholly owned subsidiaries, Coda Octopus Colmek, Inc. (“**Colmek**”) based in the USA and Coda Octopus Martech Limited (“**Martech**”) based in the United Kingdom.

Our marine engineering and 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 ship defense program for several years running.

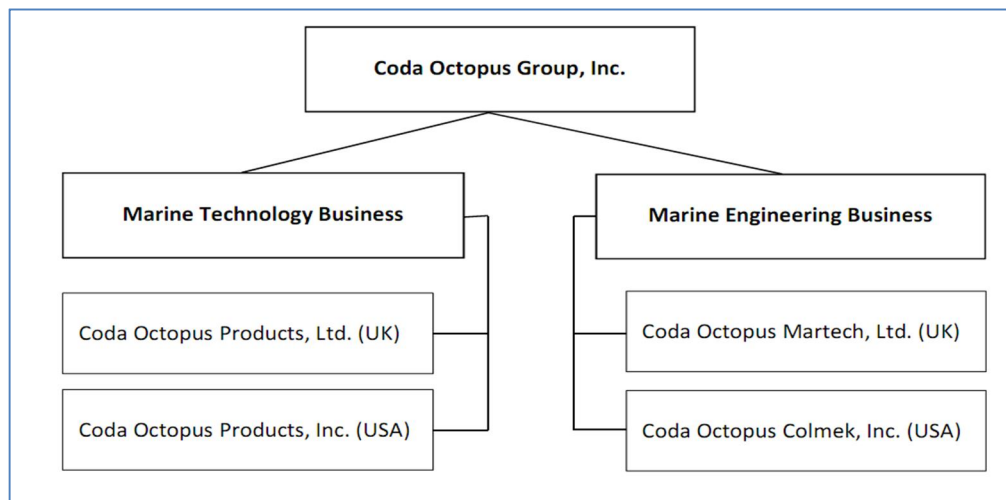
Similarly, Martech is now in the Customer Acceptance Phase of a prototype decontamination oven which is expected to form part of the ground equipment for a major international military aircraft program. Under the Customer Acceptance Phase Martech has delivered the prototype decontamination oven to the customer who is subjecting this to its own verification testing. If the prototyping is successful, we would expect that the customer will adopt this as a piece of standard ground equipment for the aircraft in question and Martech will be the incumbent for the production of this product.

Each of these operations has the requisite accreditation for the work it does and includes:

- Martech is LRQ accredited ISO9001:2008 and TickIT Guide Issue 5.5.
- Colmek is ISO9001:2008 compliant.

GROUP STRUCTURE

Our Group Structure is as follows:



In addition, 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 undergoing a restructuring since October 2009. The Company has since adopted a policy of continual and vigorous analysis of our allocation of our resources which has resulted in year on year improvements in margins.

Since the Group became a US public company and moved its headquarters to New York in 2005, it had been reporting continuing and significant losses until 2009.

A new senior management and board were put in place in September 2009 to address these and the other historical problems of the Group. Since September 2009, the focus and strategy of the new management has been to restructure the Group by:

- negotiating the removal of certain barriers to new investments that were contained in a series of securities purchase agreements entered into between the Company and a group of accredited investors between April and May 2007;
- reducing the Group's cost base significantly;
- simplifying the Group structure;
- restructuring some of the Group's debts; and
- taking the business to profitability and sustainable growth.

In connection with its costs reduction strategy, our 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 annual savings of approximately \$1,200,000 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 we believe positions the Group operations as viable and profitable. As we cautiously increase sales and marketing staff, we anticipate SG&A of the Group to continue for the foreseeable future to remain under \$6,000,000:

<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%
Full Fiscal Year 2011 – 12	Audited	\$4.9m	\$21.1m	23%

At October 31, 2009, the Group had accumulated payables and accrued expenses and other current liabilities of \$7,016,203. This consisted 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, among 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 backed up payables.

Since October 2009 we have managed to reduce the \$4,626,164 of accrued expenses and other current liabilities to \$1,476,550 as of October 31, 2012, a reduction of 68%, while the payables have also been reduced to \$1,825,768.

As of October 31, 2012 the remaining items within our accrued expenses and other current liabilities comprises current items that are incurred in the ordinary course of our operations such as sales pre-payments and provision for taxes and other matters.

A key achievement of our restructuring was to reschedule over four years of \$945,000 in certain liabilities of our wholly owned subsidiary Coda Octopus Martech Limited ("Martech"). This amount has now been reduced to approximately \$395,000. 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 has also included a \$12 million 8.5% convertible senior secured debt that is due on February 21, 2015 ("Debentures"). Under a Deed of Amendment entered into between the Company and the Debenture Holder, the annual coupon payment date obligation was rescheduled to \$250,000 payable in cash on or before November 1 each year with the remainder postponed to maturity date or redemption (whichever occurs first). Under this amendment, following the Company's yearly audit, the Company and Debenture holder will review the level of annual coupon based on the cash position of the business shown in the audit. In addition, the Company will either have to generate sufficient cash to redeem the Debentures, or come to some arrangements with the Debenture holder to reschedule the 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 the Debenture are serviceable. Current revenues and cost levels of the Group are in keeping with the obligations of servicing the Debenture. The Management believes that the failure to maintain our annual SG&A costs under \$6million 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 include geophysical data acquisition systems and analysis software and motion detection equipment. Our products acquire data and interpret these for the users. These are generally survey companies, research institutions and salvage companies.

We believe we have an important and unique technology which gives us a significant advantage over our sonar competitors in a number of applications such as port security, underwater construction

and oil and gas markets. This comprises 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 harbor 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® range, 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, place 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 as “[their] underwater eyes”, is making progress in shifting the traditional and conservative approach of the sonar market such that this product is now being viewed as the product of choice in many complex operations.

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, whales etc.);
- oil and gas leak detection;
- fish school detection and analysis;
- diver tracking and guidance;
- underwater archaeological and salvaging site mapping;
- Decommissioning;
- Offshore renewable energy – cable laying and burial and pull-in;
- Marine salvage operations;
- Harbor construction – concrete armoring; and
- Unexploded Ordnances survey and intervention.

The Echoscope® technology is protected by patents including a number of complementary patents such as a patent which covers our visualization methodology. For example, one of our recently awarded software rendering patents provides for a new method of using multiple sonar images to produce in real-time 3D a super-detailed image with sharply defined edges whilst intelligently discarding “noise” in the image produced by (for example) passing fish or floating debris.

We market the Echoscope® both as a stand-alone sonar device and as a fully integrated system, the UIS™ (Underwater Inspection System). The latter is specifically aimed at the port security market. We are now regularly 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.

During this last year we have introduced our Technology Access Program (TAP) in conjunction with a global equipment rental company serving the oil and gas and other markets. Under TAP we jointly own a number of Echosopes® with this global equipment rental company and these are hired out.

Intellectual Property

Our product portfolio and technologies are protected by 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.
US Patent No. 8,059,486	Concerns a method of rendering volume representation of sonar images.

Trademarks

In marketing and branding our products and services we use the following registered and unregistered trademarks: Coda®, Octopus®, Octopus & Design®, F180®, F170™, F175™, Echoscope®, UIS™, Survey Engine™, GeoSurvey™, Dimension® 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 defense through our two marine engineering services subsidiaries, Coda Octopus Martech Limited, 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 production which lead to long term manufacturing contracts. In connection with the engineering services provided, 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, upgrade and support to our products. Currently, Martech is a key provider of various parts of our UIS™ product, and other of our products and has been assisting in optimizing their performance.

We believe that our Unique Selling Propositions and Prospects are those set out below.

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 a 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 costs involved 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 competitive lead comes from our 20 plus 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 and harbor security, underwater construction and oil and gas. 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 price competitive products without significant further research and development costs or time delay. In this connection we are at the advanced stage of bringing to the market a new application for Remotely Operated Vehicle, which will be marketed under the name of “Dimension®”. This product has been successfully tested by large potential customers including a significant major in the oil and gas market.
- We believe that our technology is poised to be the next generation sonar tool of choice 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 recognition 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, (thus 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 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.

Corporate History

We began as Coda Technologies Limited (now 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 Limited, a United Kingdom corporation, and changed our name from Coda Technologies Limited to Coda Octopus Limited. At the time the merger 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 companies, allowed the Company to start to expand its 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 – The Panda Project, Inc. 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 The 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) Limited (now Coda Octopus Martech Limited), which provides high quality custom 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. The surrendered warrants were cancelled by the Company.

On 21 February, 2008, we borrowed \$12 million under a convertible secured promissory note ("Debentures"). Our obligations under the Debentures are secured by all our assets. The Debentures incur interest of 8.5% per annum and are convertible at the debenture holder's option at any time at a conversion price of \$1.05 per share. The Company may also force the conversion of the Debentures if certain conditions are met. Specifically, the Company may force a conversion if our common stock closes 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 Debentures is February 21, 2015. The Company and the Debenture holder entered into a Deed of Amendment on April 30, 2012 under which the bi-annual coupon payment was rescheduled to \$250,000 payable on November 1 in each year and \$770,000 was postponed to maturity date or redemption (whichever occurs first). The yearly \$250,000 is subject to review and is likely to increase if the Company's audited results show an improved cash position of the business. The terms of the Debentures may be subject to further re-negotiation including a reduction in the conversion price.

In March 2009 we entered into a Cash Control Framework Agreement with the Debenture holder 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 Company and the Debenture holder.

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 and Director. Mr. Turner continues to serve as an executive Director.

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

We compete with numerous companies, some of which are much larger than we are with much greater financial, technical and human resources and recent consolidation in this market indicates that the competition will be fiercer for us. 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.

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 we believe that 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 Limited 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 be unable to take advantage of the key patented technology or 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 have no current arrangements with respect to any additional financing except for a limited overdraft facility with our UK banks. 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.

The renegotiation of our existing \$12m secured and senior Loan (“Debentures”) including the current conversion price in the Debentures may result in significant dilution of our existing shareholders.

If we are unable to generate sufficient cash from our business operations or find suitable refinancing options, we may be unable to redeem the Debentures which are due in February 2015 (Maturity Date).

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 manufacturing 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;
- significant failure in our products including the Echoscope®;
- 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
- unforeseen 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 if and to which extent an active trading market will develop or how liquid that market might become. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

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
- naval ship defense systems

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 DA4G series Geophysical Acquisition Systems, and F180® Position and Attitude Sensors.

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:

- DA4G - 500, Sidescan sonar and sub-bottom profiler simultaneously
- DA4G - 1000, Sidescan sonar and sub-bottom profiler separately

- DA4G - 2000, 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:

The DA4G™ series of acquisition systems provides high quality, robust and reliable data acquisition from the latest digital and analogue sidescan sonar and sub-bottom profiler sensors.

DA4G™ is the 4th generation of our successful DA series® and is built on twenty years of knowledge, experience and innovation in supplying unparalleled products and service to the worldwide geophysical survey sector. These purpose-built, turn-key, systems incorporate the very latest hardware specifications and are designed and delivered to meet the demanding nature of offshore survey work.

The DA4G™ range consists of a number of options and is backed up with global service and support.

Positioning Systems

The **Octopus F180®** and newly introduced F170™ families apply 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"). Octopus iHeave, an intelligent software product for dealing with long period ocean swell compensation, is fully integrated within the F180® series. The F170™ family is designed with ease of use in mind, they are compact, simple to install and produce accurate position and motion data for the marine industry. Two product variants are available: the F170™ and the F175™. The F175™ allows integration of third-party GNSS systems thus enhancing the accuracy of the outputs and improving the robustness of the solution.

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 more than 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 laptop and is low cost relative to most naval sonars of lesser performance, and gives significant benefits over other commercially available sonars. Substantial interest has been shown in the product, particularly for port security 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 harbor (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 (albeit a surface vessel, Remotely Operated Vehicle or Autonomous Underwater Vehicle) to avoid obstacles; and
- 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, and 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 (such as 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. We have developed several patented techniques (rendering techniques) 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 Accropodes™ or mattresses in underwater construction.

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

We are close to launching a new product based on Echoscope® technology which will be aimed at the ROV (“Remotely Operated Vehicle”) market. The Dimension® product will be aimed at ROV pilots giving them more accurate 2D or 3D views of the water in which they are piloting. In tests, ROV pilots have quickly adapted to Dimension® which provides a transition between sonar and camera. This product has been successfully trialed by large potential customers including significant oil major.

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) operates 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 (“Martech”) – Based in Weymouth, England, UK)

Martech provides custom 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 has the requisite accreditation for its business including LRQ accredited to ISO 9001:2008 and Tick-IT Guide Issue 5.5.

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. Martech is in the Customer Acceptance Phase of this potentially significant project. If the Customer Acceptance Phase is positive and the Customer adopts this within its ground equipment fleet, 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 business 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 be completed in 2014.

Coda Octopus Colmek, Inc. ("Colmek") Based in Salt Lake City, Utah, USA)

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 indicative example of the type of business conducted by Colmek is the redesign of various components in the Phalanx ship defense systems. The redesign has occurred because of obsolete parts. Colmek has just started a new production contract from these redesign efforts. 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 has also developed hardware and software for a new generation of satellite modems for the commercial markets.

Colmek's products include the following:

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 and rugged LCD displays.

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, where the Company in 2012 acquired a property consisting of 3 unified condo units with office space and warehouse/storage and testing facilities totaling 4,154 square feet.

Salt Lake City, Utah, USA. Our wholly owned subsidiary, Coda Octopus Colmek, Inc. leases 7,170 square feet of business premises at 1775 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 \$7,107 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. These premises are used as offices. 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 2012 – September 2013 the equivalent of \$65,190;
- September 2013 – September 2014 the equivalent of \$78,228; and
- September 2014 to September 2015 \$84,747

This lease 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, subject to giving 9 months' notice we may terminate the lease without penalty on September 27, 2014.

This subsidiary also leases testing facility at 8 Corunna Place, Edinburgh EH6 5JG on a 3 month rolling lease agreement. The annual rent for this facility is \$10,400.

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.

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 \$44,911 (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-USD 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.

Anmarie Gayle, LL.B, LLM, Group Chief Executive Officer and Director - Denmark

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. She resigned from this position in 2007 and returned to lead the restructuring in 2009. Earlier in her career she worked for a major London law practice where she specialized in corporate law, 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, mining 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 qualified to practice as a solicitor in England & Wales.

Geoff Turner, Executive Director, 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.

Blair Cunningham, President of Technology and Director, USA

Mr. Cunningham served as President of Technology, and Director since May 2012 and prior to that as Chief Technology Officer and Head of R&D Operations of Coda Octopus Group, Inc., since 2005. Mr. Cunningham was also Technical Manager of Coda Octopus Products Limited 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.

Mike Midgley, Acting Chief Financial Officer, USA and CEO of our subsidiary Coda Octopus Colmek, Inc.

Mike Midgley serves as Acting Chief Financial Officer at Group, along with serving as Chief Executive Officer of Coda Octopus Colmek, Inc. He is a qualified CPA and has had his own practice as well as working for regional accounting firms, specializing in SEC and Tax practice areas. Since 1986, he has worked in various industries, as CFO and President. His vast expertise covers accounting and finance, having spent much of his career dealing with complex financial reporting procedures, payroll, audit duties, tax and benefit management. Mr. Midgley is also responsible for the day to day running of Colmek.

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

Audited financial statements for Coda Octopus Group, Inc. for the fiscal year ended October 31, 2012 have been posted through the OTC Disclosure and News Service as follows:

Publish date	Report Title	Period End Date
February 4, 2013	Annual Report	October 31, 2012

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 reports for Coda Octopus Group, Inc. for the period ended October 31, 2010 (unaudited) and financial statements for the period ended October 31, 2011 (unaudited) have been posted through the OTC Disclosure and News Service as follows:

Publish date	Report Title	Period End Date
March 3, 2012	Annual Report	October 31, 2010
March 8, 2012	Annual Report	October 31, 2011

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

Item 15: Beneficial Owners.

At October 31, 2012 the following persons were recorded as 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 The Controlling Individual of Greenhouse Investments Limited is Michael O'Leary Collins of the address shown herein	24,849,850 / (27.7%)
Solidor Investments Limited ⁽¹⁾ c/o Ecovis Luxembourg s.a.r.l. 56 rue Charles Martel L-2314 Luxembourg The Controlling Individual of Solidor Investments Limited is Phillip van der Westhuizen of the address shown herein	15,315,316 / (17.1%)

⁽¹⁾ Does not include 11,428,571 shares of common stock issuable upon conversion of Debentures at \$1.05 per share. A reduction in the conversion price, which may be made as a result of a renegotiation of the Debentures, is likely to increase significantly the numbers of shares issuable upon conversion thereof.

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 auditors of the consolidated group financial statements for the year ending October 31, 2012 are:

Stayner, Bates & Jensen, PC
Certified Public Accountants and Consultants
510 South 200 West, Suite 200
Salt Lake City
Utah 84101
Phone: 801.531.9100

The consolidated Group accounts for the financial year ended October 31, 2012 were audited while the statements for the financial years ended October 31, 2010 and 2011 are unaudited.

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

In 2009, following years of continued losses the Group entered a restructuring phase.

A new senior management and board were put in place in September 2009 to address these losses, and 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:

- negotiating the removal of certain barriers to new investments that were contained in a series of securities purchase agreements;
- reducing the Group's cost base significantly;
- simplifying the Group structure;
- restructuring some of the Group's debts; and
- taking the business to profitability and sustainable growth.

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 we have become profitable. As we cautiously increase sales and marketing staff, we anticipate SG&A of the Group to 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%
2011/12 (Audited) – Full Fiscal Year	\$4.9m	\$21.1m	23%

At October 31, 2009, the Group had 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, among 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 business to satisfy these.

Since October 2009 we have managed to reduce the \$4,626,164 of accrued expenses and other current liabilities to \$1,476,550 as of October 31, 2012, a reduction of 68%, whilst the Payables have also reduced to \$1,825,768.

As of October 31, 2012 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 to be repaid over four years. This amount has now been reduced to approximately \$395,000. 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 ("Debentures"). 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 these Debentures are serviceable. Current revenues and costs levels of the Group are in keeping with the obligations of servicing the Debentures. The failure to maintain our SG&A costs at under \$6 million per annum and achieve revenues in excess of \$16m per annum would threaten our ability to sustain our profitability going forward.

As part of our expansion plans of our marine business in the USA we have started to make additional investments in our marine business in Lakeland, Florida, Coda Octopus Products, Inc. In this connection, we believe that a big part of the Group's growth will come from the Americas and we have started increasing our investment in the areas of sales and business development resources and technology management.

Since the end of the financial year we have acquired 4,154 square feet of office, and warehouse space, in Lakeland, Florida, where we will site our Echoscope® Training Center and US Support Center for our products. Our Director and President of Technology has relocated to this office

Comparison of audited full year ended October 31, 2012, with full year ended October 31, 2011 (unaudited).

The 2012 consolidated financial statements are audited.

For 2011, our operating entities within the Group (Colmek, Martech, Coda Octopus Products Limited, Coda Octopus R&D Limited and Coda Octopus R&D AS) were all audited in the jurisdictions of their incorporation. However the Group financial statements for the 2011 period were unaudited.

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 USA and UK 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 currently has certain limited overdraft facilities from its bankers. We, however, cannot guarantee that these facilities will continue to be available.
- 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, 2012 compared to full year ended October 31, 2011

Full Year Revenues to October 31, 2012 Audited	Percentage Change	Full Year Revenues to October 31, 2011 Not Audited
\$21,126,058	Increase of 34.4% ("Increase")	\$15,723,830

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

- an increase in market interest in our real time 3D sonar product, the Echoscope® and its derivative, the Underwater Inspection System™; and
- Increased business in our marine engineering businesses, particularly Coda Octopus Colmek.

Gross Margins for the full year ended October 31, 2012 compared to full year ended October 31, 2011

Full Year Gross Margins October 31, 2012 Audited	Percentage Change	Full Year Gross Margins October 31, 2011 Not Audited
55.6% (gross profit of \$11,753,870)	Increase of 12.1% ("Increase") Increase of 50.7% ("Increase")	49.6% (gross profit of \$7,800,572)

This increase in gross margin percentage reflected a different mix of sales in our businesses and better trading terms with some of our significant component suppliers.

Research and Development (R&D) for the full year ended October 31, 2012 compared to full year ended October 31, 2011

Full Year R&D costs to October 31, 2012 Audited	Percentage Change	Full Year R&D costs to October 31, 2011 Not Audited
\$1,332,143	Reduction of 0.6% ("Reduction")	\$1,340,547

This Reduction in our Research and Development spending should be compared with a Reduction of 24% in the financial year ending October 31, 2011 that was consistent with our cost reduction program in the period. No further reductions are predicted and this current level of spending still allows us to devote considerable R&D resources to bring forward the 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, 2012 compared to full year ended October 31, 2011

Full Year SG&A to October 31, 2012 Audited	Percentage Change	Full Year SG&A to October 31, 2011 Not Audited
\$4,867,139	Reduction of 7.7% ("Reduction")	\$5,276,021

This Reduction reflects activity under the cost reduction plan that has been executed between 2009 and 2012. In comparison, the Reduction from financial year ending October 31, 2010 to October 31, 2011 was 31.0%. During the fiscal year 2012 the Reduction has decreased and it is likely that 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, 2012 (Audited) compared to the full year ended October 31, 2011 (Not Audited)

Expenditure	October 31, 2012	October 31, 2011	Percentage Change
Wages and Salaries	\$3,824,433	\$3,839,955	Reduction of 0.4%
Legal and Professional Fees (including accounting, audit and investment banking services)	\$462,788	\$949,098	Reduction of 51.2%
Travel Costs	\$112,623	\$225,646	Reduction of 50.1%
Rent for our various locations	\$392,865	\$406,219	Reduction of 3.3%
Marketing	\$227,004	\$110,207	Increase of 106.0%

The management anticipates going forward that we will continue prudently to reinvest in some of these areas, such as sales and marketing, which will probably involve selectively increasing other areas of expenditure, such as wages and salaries and travel costs. These figures are therefore likely to increase modestly in the fiscal year 2013.

Operating Income for the full year ended October 31, 2012 compared to full year ended October 31, 2011.

Full Year October 31, 2012 Audited	Percentage Change	Full Year October 31, 2011 Not Audited
\$5,554,588	Increase of 369.1%	\$1,184,004

The increase in operating income compared to previous years 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™).

Potential investors should carefully consider the risks and uncertainties and other information described in this statement before deciding whether to invest in shares of our common stock. For a more complete description of the risks to our business please refer to the section "Risk Factors" above.

Other Income for the full year ended October 31, 2012 compared to full year ended October 31 2011.

Full Year October 31, 2012 Audited	Percentage Change	Full Year October 31, 201 Not Audited
\$1,194,555	Increase of 5.5%	\$1,131,901

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 be reduced 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 no higher than the \$6m level.

Interest Expense for the full year ended October 31, 2012 compared to full year ended October 31, 2011

Full Year October 31, 2012 Audited	Percentage Change	Full Year October 31, 2011 Not Audited
\$1,881,659	Reduction of 4.1%	\$1,962,691

In both years we have included amortization of the 30% redemption premium for our convertible debenture. The slight reduction is due to the reduction in the costs associated with our short term borrowings during this period.

Net Income for the full year ended October 31, 2012 compared to full year ended October 31, 2011

Full Year October 31, 2012 Audited	Percentage Change	Full Year October 31, 2011 Not Audited
\$4,924,328	Increase of 349.2%	\$1,096,175

This change 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™) together with increased business in our marine engineering businesses, particularly Coda Octopus Colmek.

Dividends and Other Stock Charges.

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

Off Balance Sheet Arrangements

There is 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.

Following the end of the Reporting Period the Company purchased office, training center and warehouse space in Lakeland Florida totaling 4,154 square feet for the sum of \$300,000.

- 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.

Letter of Understanding exist with the CEO and this is now being formalized with the Company. Letter of Understanding exist with the Group Officer and Director, Geoff Turner and this is now being formalized with Company.

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
21 February 2012	Dr Rolf Kahrs Hansen	Compensation in his capacity as Director of Coda Octopus Group, Inc. during the period to which the grant relates	100,000 shares of common stock	\$200

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: February 4, 2013

/s/ Annmarie Gayle
Group CEO

CODA OCTOPUS GROUP, INC.

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CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
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FOR THE YEAR ENDED OCTOBER 31, 2012 (Audited)



Stayner Bates & Jensen P.C.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Coda Octopus Group, Inc.
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Coda Octopus Group, Inc. as of October 31, 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coda Octopus Group, Inc. as of October 31, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Stayner, Bates & Jensen, PC

Stayner, Bates & Jensen, PC
Salt Lake City, Utah
January 25, 2013

Coda Octopus Group, Inc

Consolidated Balance Sheets

	October 31st, 2012 (Audited)	October 31st, 2011 (Unaudited)
Assets		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 5,177,879	\$ 1,398,289
Short Term Investments	2,231	2,681
Accounts Receivables, net (Note 2)	2,632,101	3,203,361
Inventory (Note 2)	2,380,188	2,002,631
Unbilled Receivables, (Note 2)	694,951	705,391
Other current assets, (Note 5)	649,131	355,461
Prepaid Expenses	1,500,512	235,899
Total Current Assets	13,036,993	7,903,713
Property and Equipment, net, (Notes 2 & 4)	251,382	137,426
Goodwill and other intangibles, net, (Note 3)	3,758,923	3,852,388
Total Assets	\$ 17,047,298	\$ 11,893,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable, trade	\$ 1,825,768	\$ 2,248,439
Accrued Expenses and other current liabilities	1,476,550	1,547,428
Short term loan payable - shareholder (Note 11)	821,365	1,726,507
Loans and note payable, current portion (Note 10)	250,000	14,756,860
Warrant liability, (Note 6)	4,902	1,842
Deferred revenues, (Note 2)	3,126,034	2,996,370
Sundry Creditors	-	281,219
Total Current Liabilities	7,504,619	23,558,665
Loans and note payable, long term, Note 13	15,021,838	-
Total Liabilities	22,526,457	23,558,665
Stockholders' deficiency:		-
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of October 31, 2012, and October 31, 2011, respectively		-
Nil shares Series B issued and outstanding as of October 31, 2012 and October 31, 2011, respectively	6	6
Common stock, \$.001 par value; 150,000,000 shares authorized, 89,754,976 and 74,339,665 shares issued and outstanding as of October 31, 2012 and October 31, 2011, respectively	89,755	74,339
Additional paid-in capital	48,463,381	47,436,163
Accumulated other comprehensive loss (Note 12)	(766,971)	(985,988)
Accumulated deficit / surplus	(53,265,330)	(58,189,658)
Total Stockholder's Deficit	(5,479,159)	(11,665,138)
Total liabilities and stockholders' deficit	\$ 17,047,298	\$ 11,893,527

The accompanying notes are an integral part of the consolidated October 31, 2012 financial statements

Coda Octopus Group, Inc

Consolidated Statements of Income

	Twelve Months Ended October 31st, 2012 (Audited)	Twelve Months Ended October 31st, 2011 (Unaudited)
Net Revenue	\$ 21,126,058	\$ 15,723,830
Cost of Revenue	<u>9,372,188</u>	<u>7,923,258</u>
Gross Profit	11,753,870	7,800,572
Research & Development	1,332,143	1,340,547
Selling, General & Administrative	<u>4,867,139</u>	<u>5,276,021</u>
Operating Income/Loss	5,554,588	1,184,004
Other Income (Expense)		
Other Income	1,194,555	1,131,901
Interest Expense	(1,881,659)	(1,962,691)
Gain (loss) on change in fair value of derivative liability	14,592	471,542
Unrealized gain on sale of investment in marketable securities	<u>-</u>	<u>(12,194)</u>
Total other income (expense)	<u>(672,512)</u>	<u>(371,442)</u>
Income (Loss) before income taxes	4,882,076	812,562
Income tax refund (Notes 2 & 9)	<u>42,252</u>	<u>283,614</u>
Net Income (Loss)	<u>\$ 4,924,328</u>	<u>\$ 1,096,176</u>
Net Income (Loss) Applicable to Common Shares	<u>\$ 4,924,328</u>	<u>\$ 1,096,176</u>
Income (Loss) per share, basic and diluted	<u>\$ 0.06</u>	<u>\$ 0.01</u>
Weighted average shares outstanding	<u>78,467,765</u>	<u>74,339,665</u>
Comprehensive loss		
Net income (loss)	\$ 4,924,328	\$ 1,096,176
Foreign currency translation adjustment	219,017	(6,645)
Unrealized gain (loss) on investment	<u>-</u>	<u>(12,194)</u>
Comprehensive income (loss)	<u>\$ 5,143,345</u>	<u>\$ 1,077,337</u>

The accompanying notes are an integral part of the consolidated October 31, 2012 financial statements

Coda Octopus Group, Inc.

Consolidated Statements of Stockholders' (Deficit) Equity

	Preferred Stock Series A		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance, October 31, 2010 (Unaudited)	<u>6,287</u>	<u>\$ 6</u>	<u>60,614,958</u>	<u>\$ 60,615</u>	<u>\$ 47,167,905</u>	<u>\$ (979,343)</u>	<u>\$ (59,285,833)</u>	<u>\$ (13,036,650)</u>
Shares issued for warrants			12,674,915	12,675	240,288	-	-	252,963
Shares issued for compensation			1,050,000	1,050	33,150	-	-	34,200
Stock buy back			(208)	(0)	(5,180)			(5,180)
Foreign currency translation adjustment						(6,645)		(6,645)
Net Income							1,096,175	1,096,175
Balance, October 31, 2011 (Unaudited)	<u>6,287</u>	<u>\$ 6</u>	<u>74,339,665</u>	<u>\$ 74,339</u>	<u>\$ 47,436,163</u>	<u>\$ (985,988)</u>	<u>\$ (58,189,658)</u>	<u>\$ (11,665,137)</u>
Shares issued for compensation			100,000	100	110	-	-	210
Stock buy back			(5)	(0)	2,800			2,800
Stock issued for bond interest			15,315,316	15,315	1,004,685			1,020,000
Fair value of options issued as compensation			-	-	19,623			19,623
Foreign currency translation adjustment						219,017		219,017
Net Income							4,924,328	4,924,328
Balance, October 31, 2012 (Audited)	<u>6,287</u>	<u>\$ 6</u>	<u>89,754,976</u>	<u>\$ 89,755</u>	<u>\$ 48,463,381</u>	<u>\$ (766,971)</u>	<u>\$ (53,265,330)</u>	<u>\$ (5,479,158)</u>

The accompanying notes are an integral part of the consolidated October 31, 2012 financial statements

Coda Octopus Group, Inc

Consolidated Statements of Cash Flows

	Twelve Months Ended October 31st, 2012 <u>(Audited)</u>	Twelve Months Ended October 31st, 2011 <u>(Unaudited)</u>
Cash Flows from Operating Activities		
Net income/(loss)	\$ 4,924,328	\$ 1,096,175
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	271,982	35,365
Stock based compensation	19,833	-
Change in fair value of warrant liability	3,060	(471,542)
Financing costs	353,926	625,113
Impairment of investment of marketable securities	450	12,194
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	571,259	(1,339,520)
Inventory	(377,557)	(222,517)
Prepaid expenses	(1,264,613)	(17,843)
Unbilled receivables	10,439	(293,238)
Other current assets	(151,107)	-
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(422,670)	(1,429,170)
Deferred revenues	(175,844)	799,940
Sundry Creditors	1,111,912	-
Net cash (used)/generated by operating activities	<u>4,875,398</u>	<u>(1,205,043)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(280,925)	(80,210)
Purchases of intangible assets	(11,548)	91,348
Cash subject to restriction	-	827,266
Net cash provided by/(used in) investing activities	<u>(292,473)</u>	<u>838,404</u>
Cash Flows from Financing Activities		
Proceeds from/(repayments of) loans	(1,025,152)	1,274,387
Shares issued for bond interest	-	281,983
Stock Buy Back	2,800	-
Net cash (used)/provided by financing activities	<u>(1,022,352)</u>	<u>1,556,370</u>
Effect of exchange rate changes on cash	<u>\$ 219,017</u>	<u>\$ (6,646)</u>
Net (decrease)/increase in cash	\$ 3,779,590	\$ 1,183,085
Cash and cash equivalents, beginning of period	<u>1,398,289</u>	<u>215,204</u>
Cash and cash equivalents, end of period	<u>\$ 5,177,879</u>	<u>\$ 1,398,289</u>
Cash paid for:		
Interest	\$ 347,373	\$ 244,180
Non-Cash Investing and Financing Transactions		
Common stock issued for accrued interest	\$ 1,020,000	\$ -

The accompanying notes are an integral part of the consolidated October 31, 2012 financial statements

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

The Coda Octopus Group, Inc. ("we" "our" "company" or "Coda") was formed under the laws of the State of Florida in 1992 and re-domiciled to Delaware in 2004 following a reverse merger with The Panda Project. At the same time it changed its name 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 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 presented with these Notes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

The Company's financial statements are prepared using the accrual method of accounting in accordance with U.S. generally accepted accounting principles. The Company has elected an October 31 year end.

b. Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. At times such investments may be in excess of federal deposit insurance limits.

c. Trade Accounts Receivable

Trade accounts receivable are recorded net of the allowance for doubtful accounts. The Company provides for an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Balances still outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. The allowance for doubtful accounts was \$-0- as of October 31, 2012.

d. Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Inventories

Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory consisted of the following components:

	October 31, 2012
Raw materials and parts	\$ 1,055,868
Work in progress	266,881
Demo goods	662,811
Finished goods	394,628
	<hr/>
Total Inventory	\$ 2,380,188

f. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for minor replacements, maintenance and repairs which do not increase the useful lives of the property and equipment are charged to operations as incurred. Major additions and improvements are capitalized. Depreciation and amortization are computed using the straight-line method over three to four years, their estimated useful lives.

g. Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. 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.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Revenue Recognition (Continued)

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.

i. Concentrations of Risk

Credit losses, if any, have been provided for in the financial statements and are based on management's expectations. The Company's accounts receivable are subject to potential concentrations of credit risk. The Company does not believe that it is subject to any unusual risks or significant risks in the normal course of its business.

The Company's bank deposits are held with quality institutions. At times, such amounts may be in excess of applicable government mandated insurance limits. The Company has not experienced any losses in such accounts or lack of access to its cash, and believes it is not exposed to significant risk of loss with respect to cash. However, no assurance can be provided that access to the Company's cash would not be impacted by adverse economic conditions in the financial markets.

j. Contracts in Progress (Unbilled Receivables and Deferred Revenue)

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 consolidated balance sheet as Unbilled Receivables of \$694,951 as of October 31, 2012.

Our Deferred Revenue of \$3,126,034 consists of billings in excess of costs and revenues received as part of our warranty obligations – elaborated further 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 \$2,547,334 as of October 31, 2012.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of \$578,700 as of October 31, 2012.

k. Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification 740, *Income Taxes* (ASC 740). Under ASC 740, deferred income tax assets and liabilities are recorded for the income tax effects of differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax reporting. The Company's differences arise principally from the use of accelerated and modified accelerated cost recovery system for income tax purposes versus straight line depreciation and from utilization of net operating loss carry-forwards.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Income Taxes (Continued)

Deferred tax assets and liabilities are the amounts by which the Company's future income taxes are expected to be impacted by these differences as they reverse. Deferred tax assets are based on differences that are expected to decrease future income taxes as they reverse. Correspondingly, deferred tax liabilities are based on differences that are expected to increase future income taxes as they reverse. Note 9 below discusses the amounts of deferred tax assets and liabilities, and also presents the impact of significant differences between financial reporting income and taxable income.

For income tax purposes, the Company uses the percentage of completion method of recognizing revenues on long-term contracts which is consistent with the Company's financial reporting under U.S. generally accepted accounting principles.

l. 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.

m. Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair values because of the short-term nature of these instruments. The aggregate carrying amount of the notes payable approximates fair value as they bear interest at a market interest rate based on their term and maturity.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. 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.

o. 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 year ended October 31, 2012.

p. 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, 2012, we recorded tax credits totaling \$42,252.

q. 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, 2012 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.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. 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' deficit.

s. 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.

t. Liquidity

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

For the fiscal year ended October 31, 2012, the Company had:

Cash and cash equivalents	\$	5,177,879
Working capital surplus		5,329,070
Deficiency in stockholders' equity		5,521,411
Accumulated deficit		53,307,582
Net income for the year ended October 31, 2012		4,882,076
Positive cash flows from operations		4,875,398

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 3 - 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, 2012 is as follows:

	2012
Customer relationships (weighted average life of 10 years)	\$ 694,503
Non-compete agreements (weighted average life of 3 years)	198,911
Patents (weighted average life of 10 years)	106,739
Total identifiable intangible assets - gross carrying value	1,000,153
Less: accumulated amortization	(623,338)
Total intangible assets, net	\$ 376,815

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. During 2010, the operations of Dragon were integrated into Coda Octopus Martech Ltd. (Martech) and Dragon was dissolved during the year ended October 31, 2011.

Future estimated annual amortization expense as of October 31, 2012 is as follows:

Years Ending October 31,	Amount
2013	\$ 80,114
2014	80,113
2015	80,114
2016	80,113
2017	38,812
2018 and thereafter	17,549
Totals	\$ 376,815

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$79,069 for the year ended October 31, 2012. Goodwill is not being amortized.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL (Continued)

As a result of the acquisitions of Martech, Colmek, Products, and Dragon, the Company has goodwill in the amount of \$3,382,108 as of October 31, 2012. The carrying amount of goodwill as of the year ended October 31, 2012 are recorded below:

	2012
<u>Breakout of Goodwill:</u>	
Coda Octopus Colmek, Inc.	\$ 2,038,669
Coda Octopus Products Ltd.	62,315
Coda Octopus Martech Ltd.	998,591
Coda Octopus Martech Ltd. (from Dragon Design Ltd acquisition - see above)	282,533
Total Goodwill	\$ 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 at the dates of acquisition and by management the dates thereafter.

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

The Company's policy is to test its goodwill balances for impairment on an annual basis, in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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 2012 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.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31, 2012:

	2012
Office machinery and equipment	\$ 789,823
Furniture, fixtures and improvements	159,378
Totals	949,201
Less: accumulated depreciation	(697,819)
Property and Equipment - Net	\$ 251,382

Depreciation expense for the year ended October 31, 2012 and 2011 was \$192,913.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets consisted of the following at October 31, 2012:

	2012
Deposits	\$ 93,943
Other receivables	146,136
UK corporate tax refund from R&D credits	42,252
Value added tax (VAT) receivable	366,800
Total Other Current Assets	\$ 649,131

NOTE 6 - WARRANT LIABILITY

The Company has assessed its outstanding equity-linked financial instruments and has concluded that, effective November 1, 2009, the value of our warrants needed 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.

Fair value 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 October 31, 2012 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at October 31, 2012 is \$4,902. 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 0.14%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 320%; (4) an average expected life of the conversion feature of 0.32 years and (5) estimated fair value of common stock of \$0.07 per share.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 6 - WARRANT LIABILITY (Continued)

We have recorded a gain of \$14,592 during the year ended October 31, 2012 related to the change in fair value during this period.

Approximately ninety-eight (98) percent of our warrants issued in the last 5 years have now expired. As of October 31, 2012 there are 600,000 warrants in issue.

NOTE 7 - CAPITAL STOCK

Common Stock

The Company is authorized to issue 150,000,000 shares of common stock with a par value of \$0.001 per share.

During the year ended October 31, 2012, the Company issued 15,316,315 shares of our common stock to Solidor Investments Limited in lieu of setting off existing interests obligations of \$1,020,000. The Company also issued 100,000 common shares to an individual as compensation valued at \$210.

The Company has issued and outstanding 89,754,976 shares of common stock as of October 31, 2012.

Preferred Stock

The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.001 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.

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 paid every six months, in May and November, 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, 2012 the Company has 6,287 shares of Series A Preferred Stock in issue.

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, 2012 the Company has no shares of Series B Preferred Stock outstanding.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 8 - WARRANTS AND STOCK OPTIONS

Transactions involving warrants issued are summarized as follows:

Warrants

	Year Ended October 31, 2012	
	Number	Weighted Average Exercise Price
Outstanding at beginning of the year	5,459,418	\$ 1.49
Granted during the year	-	-
Expired or cancelled during the year	(4,859,418)	\$ 1.49
Outstanding at end of the year	600,000	\$ 1.50
Exercisable at end of the year	600,000	\$ 1.50

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

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (in Yrs)	Total Exercisable
\$1.30	300,000	0.32	300,000
\$1.70	300,000	0.32	300,000
Totals	600,000	0.32	600,000

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 8 - WARRANTS AND STOCK OPTIONS (Continued)

Transactions involving stock options issued are summarized as follows:

Stock Options

	Year Ended October 31, 2012	
	Number	Weighted Average Exercise Price
Outstanding at beginning of the year	560,000	\$ 1.43
Granted during the year	-	-
Expired or cancelled during the year	<u>(325,000)</u>	\$ 1.57
Outstanding at end of the year	<u>235,000</u>	\$ 1.25
Exercisable at end of the year	<u>235,000</u>	\$ 1.25

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

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (in Yrs)	Total Exercisable
\$1.05	50,000	2.60	50,000
\$1.30	<u>185,000</u>	0.78	<u>185,000</u>
Totals	<u>235,000</u>	1.17	<u>235,000</u>

NOTE 9 - INCOME TAXES

The Company files federal income tax returns in the U.S. and state income tax returns in the applicable states on a consolidated basis. The Company's subsidiaries also file in the appropriate foreign jurisdictions as applicable, most notably the United Kingdom.

The Company adopted the provisions of Accounting Standards Codification 740, *Income Taxes* (ASC 740), on July 1, 2007. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of ASC 740, the Company performed a review of its material tax positions in accordance with and measurement standards established by ASC 740. At the adoption date of July 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the years ended October 31, 2012 and 2011. The Company also estimates that the unrecognized tax benefit will not change significantly within the next twelve months.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 9 - INCOME TAXES (Continued)

There are no material tax positions included in the accompanying consolidated financial statements at October 31, 2012 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company uses an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. Income tax expense is the current income tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$22,380,000 as of October 31, 2012, which expire 2026 through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the U.S. tax carry-forward is approximately \$8,730,000 as of October 31, 2012. 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 fully realized.

For income tax reporting purposes, the Company's aggregate UK and Norway unused net operating losses approximate \$1,600,000 with no expiration. The deferred tax asset related to the UK and Norway tax carry-forwards is approximately \$320,000. 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 fully realized.

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

	2012
Net operating loss carry-forward benefit	\$ 9,050,000
Valuation allowance	(9,050,000)
Net deferred tax asset	\$ -

The Company did not incur any income tax expense for financial purposes as we have been able to use net operating loss carry-forwards and other timing differences during the current year to offset any tax liabilities in the various tax jurisdictions. The use of these income tax benefits in the current year have been adjusted for and offset by a valuation allowance as noted above. The Company still believes the future use and benefit of these tax assets is still uncertain and may not be realized. The Company did, however, earn a refund of \$42,252 from the United Kingdom for tax research credits during the year which is shown as a tax refund on the statement of income.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2012

NOTE 10 - LOANS AND NOTES PAYABLE

Loans and notes payable consisted of the following at October 31, 2012:

	2012
<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%, a minimum of \$250,000 due before November 1 each year (as amended) starting in 2012. 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. Balance includes principal, accrued interest and accrued terminal conversion balance.</p>	\$ 15,110,786
<p>The Company has a 7 year unsecured loan note for £100,000 due April 30, 2014; interest rate of 12% annually; repayable at maturity or convertible into common stock at \$1.00 per share if the share price reaches \$3.</p>	161,052
<p>Total loans and notes payable</p>	15,271,838
<p>Less: current portion</p>	(250,000)
<p>Total Long-Term Loans and Notes Payable</p>	\$ 15,021,838

Principal maturities as of October 31, 2012 are as follows:

Years Ending October 31,		
2013	\$	250,000
2014		411,052
2015		14,610,786
Thereafter		-
Totals	\$	15,271,838

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NOTE 11 - SHORT-TERM LOANS PAYABLE - SHAREHOLDER

Short-term loans payable - shareholder consisted of the following at October 31, 2012:

	2012
Loan payable to a shareholder for £310,000, loan requires a 20% return, past due but currently in negotiations to amend repayment terms.	\$ 499,261
Loan payable to a shareholder for £200,000, loan requires a 20% return, past due but currently in negotiations to amend repayment terms.	322,104
Total short-term loans payable - shareholder	821,365
Less: current portion	(821,365)
Long-term portion	\$ -

NOTE 12 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The Company reports other comprehensive income in accordance with ASC 220, *Comprehensive Income* ("ASC 220"). ASC 220 establishes standards for reporting in the financial statements all changes in equity during a period, except those resulting from investments by and distributions to owners. For the Company, other comprehensive income (loss) consists of foreign currency translation adjustments. Total other comprehensive income (loss) was \$219,017 for the year ended October 31, 2012. A reconciliation of the other comprehensive income (loss) in the stockholders' deficit section of the consolidated balance sheet is as follows:

	2012
Balance, beginning of year	\$ (985,988)
Total other comprehensive income (loss) for the year - foreign currency translation adjustments	219,017
Balance, end of year	\$ (766,971)

NOTE 13 - SIGNIFICANT CUSTOMERS

During the year ended October 31, 2012, the Company had one customer generate sales greater than 10% of net revenues. Revenues from this customer were \$2,119,899, or 10.03% of net revenues during the year. Total accounts receivable from this customer at October 31, 2012 was \$61,194 (2.3% of accounts receivable).

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NOTE 14 - EMPLOYEE BENEFIT PLANS

The Company's U.S. subsidiaries maintain a matching 401(k) retirement plan. The plan allows the Company to make matching contributions of 10 cents per dollar of employee contributions. U.S. employees who have at least six months of service with the Company are eligible. In addition, the Company's UK subsidiaries operate pension schemes which provide for the payment of the full contribution by the Company. These schemes in the UK operate on a defined contribution money purchase basis and the contributions are charged to operations as they arise. Finally, the Company is obligated to provide pension funding according to Norwegian legislation for its subsidiary located in Norway. The Company has an arrangement that fulfills this requirement.

NOTE 15 - OPERATING LEASES

The Company occupies various office and warehouse facilities pursuant to both term and month-to-month leases. The leases expire at various times through September 2015. The following schedule summarized the future minimum lease payments on the term operating leases:

<u>Years Ending October 31,</u>	<u>Amount</u>
2013	\$ 220,914
2014	171,986
2015	10,620
Thereafter	-
Total future minimum lease payments	<u>\$ 403,521</u>

NOTE 16 - SUBSEQUENT EVENTS

On November 14, 2012, the Company purchased 4,154 square feet of office and warehouse space located in Lakeland, Florida. The purchase price was \$300,000 plus closing costs.

The Company has evaluated subsequent events through January 25, 2013, the date which the consolidated financial statements were available to be issued, and noted no other subsequent events for inclusion in the notes other than those disclosed above.