Coda Octopus Group, Inc.

Quarterly Report

May 1, 2012 – July 31, 2012

Address:

4020 Kidron Road
Suite #3
Lakeland
Florida 33811
Phone: + 1 801 973 9136
Fax: + 1 801 973 9285
Symbol: CDOC

September 13, 2012

Forward-Looking Statements

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

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

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

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. 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.

Contents

Item 1: The exact name of the issuer and the address of its principal executive offices.

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

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

Its predecessor is The Panda Project, Inc.

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

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

Item 2: Shares outstanding.

Securities outstanding: Common stock.

Trading symbol: CDOC

CUSIP: 19188U 10 7

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

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

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

Common Stock

(i) Period end date:	**September 13, 2012**	**July 31, 2012**	**October 31, 2011**	**October 31, 2010**
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	89,754,976	89,754,976	74,339,665	60,614,958
(iv) Freely tradable shares (public float);	34,903,953	34,903,953	30,808,764	19,054,098
(v) Total number of shareholders of record	295	295	300	401

Series A Preferred Stock

(i) Period end date:	**September 13, 2012**	**July 31, 2012**	**October 31, 2011**	**October 31, 2010**
(ii) Number of shares authorized;	5,000,000	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding;	6,287	6,287	6,287	6,287
(iv) Freely tradable shares (public float);	-0-	-0-	-0-	-0-
(v) Total number of beneficial shareholders	5	5	5	5
(vi) Total number of shareholders of record	5	5	5	5

Item 3: Interim financial statements.

Unaudited interim financial statements for Coda Octopus Group, Inc. for the period ended July 31, 2012 are included in this Quarterly Report at pages 17 through to 20 inclusive. The unaudited financial statements contain:

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

The unaudited consolidated financial statements include the accounts of Coda Octopus Group, Inc and its domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financials and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

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

Forward-Looking Statements

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

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

General Overview

Coda Octopus Group, Inc., ("the Company", "we", "us", "our Group") has its headquarters in Lakeland, Florida with operating subsidiaries and research and development facilities in USA, UK and Norway respectively. The Group has subsea expertise and through its marine operations develops and manufactures various subsea products including its patented technology the Echoscope® which is a real time 3D sonar product. In addition, we have engineering operations (located in England and the USA), which are suppliers to defense prime and sub-prime contractors and which also has subsea and marine engineering experience which we leverage within the Group.

Recent Developments

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

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

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

In respect of its cost reduction strategy, the new management focused initially on stripping out the costs associated with having an extended New York administrative center (including the rent and salaries of the then senior management that was based in New York). Closing the New York administrative center resulted in approximately $1,200,000 per annum savings in salaries associated with our headquarters operations. We have significantly 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's operations to be viable and profitable. As we cautiously increase sales and marketing staff and launch new products based on our patented technology, we envisage SG&A of the Group will continue to be under $6,000,000 compared to:

Fiscal year – November 1 – October 31	SG&A	Revenues	SG&A / Revenues
2007/08 (Audited) – Full Fiscal Year	$13.2m	$17.0m	78%
2008/09 (Audited) – Full Fiscal Year	$11.2m	$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 (Unaudited) – Nine Months ended July 31, 2012	$3.5m	$15.5m	23%

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

As of July 31, 2012 we have managed to reduce the $4,626,164 (of Accrued Expenses and Other Current Liabilities) which was outstanding and shown on our balance sheet as at October 31, 2009 to $1,128,614, a reduction of 76%, whilst the Accumulated Payables are at $2,065,546. This latter sum includes an exceptional item of $204,000 to cover a tax liability in the UK and otherwise is at a level now in line with the increased sales. As of July 31, 2012 the remaining items within our Accrued Expenses and Other Current Liabilities comprise ordinary and current items such as employee accruals and provision for taxes and other matters accrued during the ordinary course of our business.

A key achievement of our restructuring has been to reschedule in October 2010 certain liabilities of our wholly owned subsidiary Coda Octopus Martech Limited. Under this arrangement $945,000 was consensually rescheduled over a four year period. As of July 31, 2012, Martech has paid approximately $455,000, thus reducing the balance outstanding under this arrangement to approximately $490,000. Martech pays approximately $200,000 per year. As of the date of this report, Martech is current under this arrangement, and will need to keep current to avoid adverse consequences.

Since February 21, 2008 our Balance Sheet also includes a $12 million convertible secured debt ("Debt"). This Debt is held by Solidor Investments Limited ("Solidor" or "Debenture holder"). The terms of the Secured Loan provide for an annual interest of 8.5% payable by the Company bi-annually. A primary focus of our restructuring has been to rehabilitate our income statement in such a way as to reach a level where the annual coupon obligations associated with this Debt are serviceable. Current revenues and costs levels of the Group are in keeping with the obligations of servicing this Debt. As of July 31, 2012, the principal Debt amount plus accrued and unpaid interest amounted to $14,477,214. In May 2012, the Company reached an agreement with Solidor to reschedule the interests payments

("Rescheduling Agreement") provided for under the Secured Loan Agreement. Under the terms of the Rescheduling Agreement the Company will pay $250,000 annually and the remaining $770,000 will accrue and be payable at maturity in February 2015. If the Company fails to pay the amounts due periodically, then the amounts will revert to $1,020,000. The Rescheduling Agreement also provides for the Company and the Debenture holder to review the revised periodic payment annually to determine whether its cash flow permits increase in this amount.

In addition, under the terms of the Rescheduling Agreement the Company agreed to issue to the Debenture holder 15,315,316 shares of common stock in settlement of $1,020,000 representing interest payment obligations outstanding as of May 2012.

The Debenture holder forgave all defaults including default interests that had been incurred at the date of the Rescheduling Agreement.

With this level of debt, the failure to maintain our SG&A costs at around $6 million per annum and achieve revenues in excess of $16 million per annum would threaten our ability to sustain our profitability going forward.

Results from Operations

For the first time the Company has recorded a working capital surplus. As of July 31, 2012, the Working Capital Surplus of the Company was $3,169,451.

Comparison of the Nine Months Ended July 31, 2012 to the Nine Months Ended July 31, 2011

Revenues for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Revenues for the Nine Months ended July 31, 2012*)	**Percentage Change**	**Revenues for the Nine Months ended July 31, 2011*)**
$15,493,494	Increase of 50.3% ("**Increase**")	$10,306,248

***)** Unaudited

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

- We are generally seeing an uptake in demand for our patented real time 3D sonar product, the Echoscope® and the Underwater Inspection System (UIS™) in the market place;
- We have launched various upgrade products which have contributed to our revenues;
- Following the restructuring which commenced in 2009 and the reduction in our SG&A expenditure, there is more cash available to convert our order book to revenues (resulting in shorter delivery times), and to seek more beneficial terms from our suppliers.

Gross Margins for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Margins for the Nine Months ended July 31, 2012*)	**Margins for the Nine Months ended July 31, 2011*)**
54.3% (gross profit of $8,448,717)	52.3% (gross profit of $5,392,614)

*) Unaudited

Gross Margins have been increasing consistently over the period from 46.6% in the first quarter to 63.1% over the three months reporting period. Some of this fluctuation is due to the mix of business reported on in each quarter. For example, our engineering businesses, Coda Octopus Colmek and Coda Octopus Martech, operate on slightly lower margins than the Coda Octopus Products business. In addition, some of our products attract a higher margin than others. Our Gross Margins therefore vary according to the mix of products and services sold within the reporting period.

As part of our continued restructuring and focus on corporate governance we are achieving better terms with our suppliers through volume ordering and more orderly supply chain management. We expect this to bring further benefits during the remaining quarter of Fiscal Year 2012 and into 2013 and beyond in the Marine Products business, along with improved margins in the engineering businesses due to reduced material costs. Nevertheless, it is not likely that the overall profit margin will increase further. Going forward, we anticipate our annualized Gross Margins to be in the range 50%-60%.

Research and Development (R&D) for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

R&D costs for the Nine Months ended July 31, 2012*)	**Percentage Change**	**R&D costs for the Nine Months ended July 31, 2011*)**
$973,991	Reduction of 17.1% ("Reduction")	$1,174,768

*) Unaudited

The Reduction in our R&D spending is consistent with the reductions we have made during our restructuring of the Group. The management would expect to see an increase in R&D spending in the coming months reflecting further investments in product development. For example, we have recently announced a new range of patented real-time 3D sonar products ("the Dimension™") aimed at the Remotely Operated Vehicle (ROV) market, technology advancement and the continued investment in our production capabilities.

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

SG&A for the Nine Months ended July 31, 2012*)	Percentage Change	SG&A for the Nine Months ended July 31, 2011*)
$3,523,512	Reduction of 6.2% ("Reduction")	$3,756,771

*) Unaudited

The Reduction in SG&A reflects activity under the cost reduction plan that has been executed between 2009 and 2011. During fiscal year 2012 the Company has started to increase modestly some of its expenditures, particularly in the areas of sales and marketing of our existing products. In addition, we have increased marketing expenditures associated with launching new products such as the F170 Series and Dimension^{TM}, both of which were announced in April 2012 and our TAP rental offering which was launched earlier this year.

Key Areas of SG&A and R&D Expenditure across the Group for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Expenditure	July 31, 2012*)	Percentage Change	July 31, 2011*)
Wages and Salaries	$2,799,411	Reduction of 3.3%	$2,897,793
Legal and Professional Fees (including accounting, audit and investment banking services)	$381,814**)	Reduction of 42.6%	$665,252
Travel Costs	$84,343	Reduction of 53.0%	$179,285
Rent and office costs for our various locations	$482,939 (Rent only was $249,920	A Reduction in Rent only costs of 15%	$293,991 (Rent only)
Marketing	$182,833 (or $56,676 excluding biannual major exhibition costs of $126,157)	An increase of 56% excluding biannual exhibition costs	$36,192

*) Unaudited

**) We expect to increase significantly our spending in both the categories of Legal and Professional Fees at the end of the year when we anticipate the resumption of the auditing of our consolidated financial statements and also in the category of marketing to reflect the costs of launching the new products announced in this fiscal year.

The management anticipates going forward that we will continue to prudently reinvest in some of these areas, such as sales and marketing, as we did in the second Quarter where we took a major presence at Oceanology International Exhibition (London) in March, and which will probably also involve selectively increasing other areas of expenditure, such as travel costs. We would also anticipate our legal and professional fees increasing as we become fully audited again, probably at the end of this Fiscal Year. The current levels of expenditure are therefore likely to increase in the fiscal years 2012 and 2013.

Operating Income and/or Loss for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Operating Income for the Nine Months ended July 31, 2012*)	Percentage Change	Operating Income for the Nine Months ended July 31, 2011*)
$3,951,214	Increase of 757%	$461,075

*) Unaudited

This increase is attributable to the change in strategy for the Group including the restructuring of the business under which SG&A was reduced over time, combined with an increase in sales of our real-time 3D sonar product, the Echoscope® and its derivative products such as the Underwater Inspection System (UIS™).

Other Income for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Other Income for the Nine Months ended July 31, 2012*)	Percentage Change	Other Income for the Nine Months ended July 31, 2011*)
$905,928	Increase of 11.2%	$814,380

*) Unaudited

During Q3 we rationalized some of our subsidiary companies in the USA, and as a result our Other Income saw some benefit. We continue to anticipate that a large portion of the Other Income will be non-recurring going forward. Our expectation is that Other Income will reduce to approximately $150,000 or less per annum going forward

Interest Expense for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Interest Expense for the Nine Months ended July 31, 2012*)	Percentage Change	Interest Expense for the Nine Months ended July 31, 2011*)
$1,341.734	Reduction of 3.8 %	$1,394,506

*) Unaudited

The reduction in Interest Expense is due to both a reduction in the requirement for short term borrowing and an improvement in the rates at which the Company can borrow. In both periods we have included amortization of the 30% redemption premium for our Debenture.

Net Income or Loss for the Nine Months ended July 31, 2012 compared to the Nine Months ended July 31, 2011

Net Income for the Nine Months ended July 31, 2012*)	**Percentage Change**	**Net Income for the Nine Months ended July 31, 2011*)**
$3,497,756	Increase of 1,067%	$299,787

*) Unaudited

So far this year we have also recorded a positive cash flow from operations of $2,557,920. This significant increase is attributable to the change in strategy for the Group including the restructuring of the business between 2009 and 2011 under which SG&A was reduced over time, 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™).

It is the management's belief that if the Company is to remain profitable going forward, we will need to achieve revenues from our operations in excess of $16 million during the current fiscal year. We will also need to maintain our SG&A expenditures at around the $6m level or less.

Inflation and Foreign Currency.

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

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

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

	UK £	$	NOK	$	Total $
Revenues from Foreign Subsidiaries	5,834,889.	9,181,022	0.00	0.00	9,181,022
Direct Costs of Revenues from Foreign Subsidiaries	3,020,685	4,752,958	317,537	54,216	4,807,174
Direct Costs of Foreign Subsidiaries	3,795,472	5,972,062	317,537	54,216	6,026,278

The prevailing exchange rates during the Nine Months Ended July 31, 2012 ranged between $1.5296 and $1.6269 for Pound Sterling and between $0.1633 and $0.1798 for the Norwegian Kroner for the same period. The above are calculated at $1.57347 and $0.17074 and are the average exchange rates over the Nine Months.

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

Dividends and Other Stock Charges.

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

Off Balance Sheet Arrangements

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

Item 5: Legal Proceedings.

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

Item 6: Defaults upon Senior Securities.

None

Item 7: Other Information.

In May 2012, Dr. Rolf Kahrs Hansen resigned from the Board of Directors to exploit his Sleep Apnea Technology. Dr. Hansen remains the Company's exclusive subsea expert under a consultancy agreement and continues to be involved in our new generation of 3D products. In May 2012 Blair Cunningham was appointed to the Board of Directors and as the Company's President of Technology.

During the second quarter of the fiscal year 2012 Greenhouse Investments Limited, our then largest beneficial stockholder, assigned all its rights in the $12m debentures to Solidor Investments Limited ("Solidor"). Under the terms of the assignment, the beneficial interest in the shares of common stock in Coda Octopus Group Inc. which were held by Greenhouse at the date of the assignment (23,576,986) has also been transferred to Solidor. As a result of the transfer of the beneficial interest in the shares of common stock to Solidor by Greenhouse Investments Limited and the recently issued shares of common stock in lieu of the existing coupon obligation (15,315,316), at the date of this report, Solidor is currently the beneficial owner of approximately 43% of the Company's common stock.

During the reporting period, the Company entered into a restructuring of the Debentures with Solidor ("Restructuring Agreement"). Under the terms of the Restructuring Agreement, 75.5% of the annual coupon of $1,020,000 has been postponed to maturity (2015) as long as the Company pays the remaining $250,000 on or before 1 November in each calendar year (Revised Annual Coupon Payment). The Revised Annual Coupon Payment is subject to adjustment based on the Company's cash performance annually.

In addition, the Company agreed with Solidor to settle $1,020,000 of existing indebtedness by the Company through the issuance of 15,315,316 shares of our common stock.

Item 8: Exhibits

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

Item 9: Issuer's Certifications.

I, Annmarie Gayle, certify that:

1. I have reviewed this Quarterly Report for the Nine Months Ended July 31, 2012 of Coda Octopus Group, Inc.;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this Quarterly Report.

Date: September 13, 2012

/s/ Annmarie Gayle
Group CEO

CODA OCTOPUS GROUP, INC.

Index to consolidated unaudited financial statements

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

Coda Octopus Group, Inc

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Consolidated Accounts

Income Statement	**Three Months Ended July 31st, 2012**	**Three Months Ended July 31st, 2011**	**Nine Months Ended July 31st, 2012**	**Nine Months Ended July 31st, 2011**
Net Revenue	5,868,068	3,525,442	15,493,494	10,306,248
Cost of Revenue	2,167,542	1,579,090	7,044,777	4,913,634
Gross Profit	**3,700,526**	**1,946,352**	**8,448,717**	**5,392,614**
Research & Development	333,147	363,447	973,991	1,174,768
Selling, General & Administrative	1,119,934	1,051,244	3,523,512	3,756,771
Operating Income/Loss	**2,247,445**	**531,661**	**3,951,214**	**461,075**
Other Income (Expense)				
Other Income	310,886	634,301	905,928	814,380
Interest Expense	(440,508)	(486,439)	(1,341,734)	(1,394,506)
Gain (loss) on change in fair value of derivative liability	(341)	81,626	(17,651)	418,838
Unrealized gain on sale of investment in marketable securities		1,700	-	-
Realized gain on the sale of marketable securities		-		-
Total other income (expense)	**(129,962)**	**231,188**	**(453,458)**	**(161,288)**
Income (Loss) before income taxes	2,117,483	762,849	3,497,756	299,787
Provision for income taxes		-		-
Net Income (Loss)	**2,117,483**	**762,849**	**3,497,756**	**299,787**
Preferred Stock Dividends				
Series A		-		-
Series B				
Beneficial Conversion Feature				
Net Income (Loss) Applicable to Common Shares	**2,117,483**	**762,849**	**3,497,756**	**299,787**
Income (Loss) per share, basic and diluted	0.02	0.01	0.04	0.00
Weighted average shares outstanding	89,754,976	74,313,102	89,754,976	74,313,102
Comprehensive loss				
Net income (loss)	2,117,483	762,849	3,497,756	299,787
Foreign currency translation adjustment	139,319	154,442	173,704	(152,031)
Unrealized gain (loss) on investment	-	-	-	-
Comprehensive income (loss)	2,256,802	917,291	3,671,460	147,756

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

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

Balance Sheet	July 31st, 2012	October 31st, 2011
Assets		
Current Assets		
Cash and Cash Equivalents	3,480,865	1,398,289
Short Term Investments	2,231	2,681
Accounts Receivables, net of allowance for doubtful accounts	2,569,709	3,203,361
Inventory	1,666,428	2,002,631
Unbilled Receivables, Note 2	1,010,569	705,391
Other current assets, Note 3	126,923	355,461
Prepaid Expenses	1,148,993	235,899
Total Current Assets	**10,005,718**	**7,903,713**
Property and Equipment, net, Note 4	564,502	137,426
Goodwill and other intangibles, net, Note 5	3,789,418	3,852,388
Total Assets	**14,359,638**	**11,893,527**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable, trade	2,065,546	2,248,439
Accrued Expenses and other current liabilities	1,128,614	1,547,428
Short term loan payable	860,133	1,726,507
Loans and note payable, long term, Note 11	406,858	14,756,860
Warrant liability, Note 8	19,494	1,842
Deferred revenues, Note 2	2,355,622	2,996,370
Sundry Creditors	-	281,219
Total Current Liabilities	**6,836,267**	**23,558,665**
Loans and note payable, long term, Note 11	14,477,214	-
Total Liabilities	**21,313,481**	**23,558,665**
Contingencies and Commitments, Note 10		
Stockholders' deficiency:		-
Preferred stock, $.001 par value; 5,000,000 shares authorized,	6	6
6,287 Series A issued and outstanding, as of		-
July 31,2012, 2012 and October 31, 2011, respectively		-
Nil shares Series B issued and outstanding as of		-
July 31, 2012 and October 31, 2011, respectively		-
Common stock, $.001 par value; 150,000,000 shares	89,755	74,339
authorized, 89,754,976 and 74,339,665 shares issued and outstanding		-
as of July 31, 2012 and October 31, 2011, respectively		-
Additional paid-in capital	48,460,581	47,436,163
Accumulated other comprehensive loss	(812,283)	(985,988)
Accumulated deficit / surplus	(54,691,902)	(58,189,658)
Treasury Stock		
Capital Surplus		
Currency Translation Adjustments	-	
Total Stockholder's Equity	**(6,953,843)**	**(11,665,138)**
Total liabilities and stockholders' deficit	**14,359,638**	**11,893,527**

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

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

	Preferred Stock Series A		Common Stock		Stock	Additional Paid-in	Accumulated Other	Accumulated	
	Shares	Amount	Shares	Amount	Subscribed	Capital	Comprehensive loss	Deficit	Total
Balance, October 31, 2011	6,287	6.10	74,339,665	74,339.38	-	47,436,162.94	- 985,987.59	- 58,189,657.51	- 11,665,136.87
Shares issued for compensation			100,000	100.00		110.00		-	210.00
Stock buy back			- 5	- 0.01		0.01			-
Stock issued for bond interest			15,315,316	15,315		1,004,684.68			1,020,000.00
Fair value of options issued as compensation			-	-		19,623.39		-	19,623.39
Foreign currency translation adjustment							173,704.22		173,704.22
Net Income								3,497,755.79	3,497,755.79
Balance, July 31, 2012	6,287	6.10	89,754,976	89,754.69	-	48,460,581.02	- 812,283.37	- 54,691,901.72	- 6,953,843.47

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

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

Cash Flow	Three Months Ended July 31st, 2012	Three Months Ended July 31st, 2011	Nine Months Ended July 31st, 2012	Nine Months Ended July 31st, 2011
Cash Flows from Operating Activities				
Net income/(loss)	2,117,483	762,850	3,497,756	299,789
Adjustments to reconcile net loss to net cash				
used by operating activities:				
Depreciation and amortization	42,419	51,614	157,506	134,277
Stock based compensation	619	(265,363)	19,833	-
Change in fair value of warrant liability	341	(244,825)	17,651	(582,037)
Financing costs	(642,111)	379,922	127,212	244,180
Impairment of investment of marketable securities	450	-	450	1,700
Bad debt expense	-	-	-	-
Gain on sale of investment in marketable securities	-	-	-	-
Loss on sale of assets		-		-
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Short-Term Investments				
Accounts receivable	623,600	(976,677)	633,651	(947,515)
Inventory	182,526	(454,244)	336,203	180,432
Prepaid expenses	(296,840)	(296)	(913,094)	(218,480)
Unbilled receivables and Other assets	231,164	(83,317)	(76,639)	47,097
Intercompany receivables	-		-	-
Increase (decrease) in current liabilities:		-		-
Accounts payable and accrued expenses	(304,097)	(1,110,896)	(182,892)	(234,002)
Deferred revenues	141,640	1,182,636	(1,401,217)	(328,754)
Sundry Creditors	(116,299)	(250,880)	341,500	-
Net cash (used)/generated by operating activities	1,980,895	(1,009,476)	2,557,920	(1,403,313)
Cash Flows from Investing Activities				
Purchases of property and equipment	(317,487)	(123,659)	(219,717)	(128,194)
Purchases of intangible assets	11,548	(24,483)	(301,896)	(8,652)
Cash subject to restriction	-	-	-	827,266
Cash acquired from acquisitions	-	-	-	-
Net cash provided by/(used in) investing activities	(305,939)	(148,142)	(521,613)	690,420
Cash Flows from Financing Activities				
Proceeds from/(repayments of) loans	(433,331)	549,622	(1,147,436)	1,418,372
Proceeds for sale of marketable security	-	-	-	-
Shares issued for bond interest	1,020,000	268,585	1,020,000	281,983
Common stock subscribed	-	-	-	-
Deferred payment related to acquisitions	-	(112,993)	-	(112,993)
Preferred stock dividend		-		-
Net cash (used)/provided by financing activities	586,669	705,214	(127,436)	1,587,362
Effect of exchange rate changes on cash	(240,937)	154,443	173,704	(152,031)
Net (decrease)/increase in cash	**2,020,688**	**(297,961)**	**2,082,576**	**722,438**
Cash and cash equivalents, beginning of period	1,460,177	1,235,603	1,398,289	215,204
Cash and cash equivalents, end of period	3,480,865	937,642	3,480,865	937,642

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

CODA OCTOPUS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2012 (UNAUDITED)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

General

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

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

Business and Basis of Presentation

Coda Octopus Group, Inc. (*"we "*,*"us"* "*our company* " or *"Coda"*) was formed under the laws of the State of Florida in 1992 and re-domiciled 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 unaudited condensed consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements presented with these Notes.

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was $nil for the period ended July 31, 2012 and $nil for the year ended October 31, 2011. Despite making allowances for doubtful accounts in the past, we have not realized any actual bad debt expense during the period for which such allowances were made.

Inventory

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

	July 31, 2012	Oct 31, 2011
Raw materials	$ 868,515	$ 1,076,249
Work in progress	$ 320,878	$ 178,096
Finished goods	$ 477,035	$ 748,286
Total inventory	$ 1,666,428	$ 2,002,631

Earnings Per Share ("EPS")

Net income (loss) per share

Dilutive common stock equivalents consist of shares issuable upon conversion of warrants and the exercise of the Company's stock options and warrants. Common stock equivalents derived from shares issuable in conversion of the warrants are not considered in the calculation of the weighted average number of common shares outstanding because the adjustments in computing income available to common stockholders would result in a loss. Accordingly, the diluted EPS would be computed in the same manner as basic earnings per share.

The following reconciliation of net income and share amounts used in the computation of earnings per share for the Nine Months ended July 31, 2012:

	Nine Months Ended July 31, 2012
Net income used in computing basic net income per share	$ 3,497,756
Impact of assumptions:	
Costs on warrant liability marked to fair value	$ 17,651
Net income in computing diluted net gain or loss per share:	$ 3,497,756

Per share basic and diluted net income amounted to $0.04 for the period ended July 31, 2012. Per share basic and diluted net income amounted to $0.01 for the period ended October 31, 2011.

Liquidity

As of July 31, 2012, we had:

Cash and Cash Equivalents	$ 3,480,865
Working Capital Surplus	$ 3,169451
Deficiency in Stockholders' Equity	$ 6,953,843
Accumulated Deficit	$ 54,691,902
Net Income for the Nine Month Period Ended July 31, 2012	$ 3,497,756
Positive Cash Flow from our operations	$ 2,557,920

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.

NOTE 2 - CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the balance sheet as Unbilled Receivables of $1,010,569 and $705,391 as of July 31, 2012 and October 31, 2011 respectively.

Our Deferred Revenue of $2,355,622 consists of (Billings in excess of costs and Revenues received as part of our warranty obligations). This is 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 $1,858,014 and $2,627,137 as of July 31, 2012 and October 31, 2011 respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of $497,608 and $369,233 as of July 31, 2012 and October 31, 2011 respectively.

NOTE 3 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total $126,923 and $355,462 at July 31, 2012 and October 31, 2011 respectively. These totals comprise the following:

		July 31, 2012		Oct 31, 2011
Deposits	$	118,620	$	98,704
Other receivable	$	8,303	$	256,758
Total	$	126,923	$	355,462

*These figures represent amounts held by third parties to secure certain of our obligations undertaken in the ordinary course of our business, such as rent deposits held as security for the performance of our obligations under these agreements and as is customary for these types of transactions and amounts held on various Customs Accounts as advance against VAT Deposit which is refundable when the goods are re-exported.

NOTE 4 - FIXED ASSETS

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

		July 31, 2012		Oct 31, 2011
Machinery and equipment	$	1,226,993	$	839,481
Accumulated depreciation	$	(662,491)	$	(702,055)
Net property and equipment assets	$	564,502	$	137,426

Depreciation expense recorded in the statement of operations for the period ended July 31, 2012 was $98,283. This has resulted in a reduction of the accumulated depreciation of $39,564 which is a reflection of the disposal and replacement of some of the older items of Machinery and Equipment held by the Company.

NOTE 5 - INTANGIBLE ASSETS AND GOODWILL

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

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

		July 31, 2012		Oct 31, 2011
Customer relationships (weighted average life of 10 years)	$	694,503	$	724,243
Non-compete agreements (weighted average life of 3 years)		209,561	$	228,651
Patents (weighted average life of 10 years)	$	106,739	$	95,191
Licenses (weighted average life of 2 years)	$	0	$	0
Total amortized identifiable intangible assets - gross carrying value	$	1,010.803	$	1,048,085
Less accumulated amortization	$	(603,493)	$	(577,805)
Residual value	$	407,310	$	470,280

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

2012	$	78,964
2013	$	78.964
2014	$	78,,964
2015 and thereafter	$	176,996
Total	$	413,888

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to $59,223 and $78,959 for the period ended July 31, 2012 and year ended October 31, 2011, respectively. Goodwill is not being amortized.

NOTE 6 - CAPITAL STOCK

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

During the reporting period, May 1, 2012 to July 31, 2012, we issued 15,316,315 shares of our common stock to Solidor Investments Limited in lieu of existing interest obligations of $1,020,000. The Company has issued and outstanding 89,754,976 shares of common stock as of September 13, 2012.

Other Equity Transactions

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

Period	Number of Options Cancelled
Number of options which expired or were cancelled in the 12 months period ended October 31, 2011	962,900
Number of options which expired or were cancelled in the Nine Months Period ended July 31, 2012	295,000

NOTE 7 - WARRANTS AND STOCK OPTIONS

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

Warrants	**Nine Months ended July 31, 2012**			**Year ended October 31, 2011**		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding at beginning of the period	5,459,418	$	1.49	24,119,418	$	1.47
Granted during the period	—		—	—		—
Terminated during the period	(4,799,418)		1.49	(18,660,000)		1.46
Outstanding at the end of the period	660,000	$	1.50	5,459,418	$	1.49
Exercisable at the end of the period	660,000	$	1.50	5,459,418	$	1.49

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

Range of Exercise Prices	**Number Outstanding**	**Weighted Average Contractual Life (Years)**	**Total Exercisable**
0.50	-	-	-
0.58	-	-	-
1.00	-	-	-
1.30	330,000	0.58	330,000
1.70	330,000	0.58	330,000
Totals	660,000	0.58	660,000

Stock Options	**Nine Months ended July 31, 2012**			**Year ended October 31, 2011**		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding at beginning of the period	560,000	$	1.43	1,522,900	$	1.19
Granted during the period	—		—	-		-
Terminated during the period	(295,000)		1.59	(962,900)	$	1.05
Outstanding at the end of the period	265,000	$	1.25	560,000	$	1.43
Exercisable at the end of the period	265,000	$	1.25	560,000	$	1.43

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

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Years)	Total Exercisable
1.00	0	0	0
1.05	50,000	2.85	50,000
1.30	215,000	0.93	215,000
1.50	0	0	0
1.70	0	0	0
Totals	265,000	1.29	265,000

NOTE 8 – DERIVATIVE LIABILITY

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

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

At July 31, 2012 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at July 31, 2012 is $19,194. 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 0.19%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 335%; (4) an average expected life of the conversion feature of 0.28 years and (5) estimated fair value of common stock of $0.06 per share.

We have recorded a charge of $17,651 during the Nine Months ended July 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 July 31, 2012 there are 660,000 warrants in issue.

NOTE 9 - INCOME TAXES

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

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

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate $3,202,189 with no expiration. The deferred tax asset related to the carry-forward is approximately $11,584,542.

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

Non-Current	**July 2012**	**October 2011**
Net Operating Loss Carry Forward	$ 11,584,542	$ 11,584,542
Valuation Allowance	$ (11.584,542)	$ (11,584,542)
Net Deferred Tax Asset	$ —	$ —

NOTE 10 - CONTINGENCIES AND COMMITMENTS

Litigation

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

Operating Leases

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2015. Future minimum lease obligations are approximately $864,461, with the minimum future rentals due under these leases as of July 31, 2012 as follows:

2012	$ 76,590
2013	$ 296,527
2014	$ 250,084
2015 and thereafter	$ 164,670
Total	$ 787,-871

NOTE 11 - NOTES AND LOANS PAYABLE

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

	July 31, 2012	Oct. 31, 2011
On February 21, 2008 the Company issued a convertible secured debenture with a face value of $12M ("Secured Debenture"). The Secured Debenture matures on February 21, 2015 at 130% of its face value. The Secured Debenture attracts interest of 8.5% payable every six months, starting from February 21, 2009. During the term the Secured Debenture is convertible into shares of our common stock, at the option of the Debenture holder, at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price	$ 14,727,214	$ 14,596,500
The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note for £100,000; interest rate of 12% annually; repayable at borrower's instigation or convertible into common stock when the share price reaches $3.	$ 156,858	$ 160,360
Total	$ 14,884,072	$ 14,756,860
Current portion & other loan notes (1)	$ 406,858	$ 14,756,860
Total long-term borrowings	$ 14,477,214	$ 0

(1) In May 2012, the Company and the existing Debenture holder, Solidor Investments Limited, reached an agreement to reschedule the existing interest payments ("Rescheduling Agreement") provided for under the Secured Loan Agreement. Under the terms of the Rescheduling Agreement the annual interest payments will remain the same but the Company will pay $250,000 annually and the remaining $770,000 will accrue and be payable at maturity in February 2015. If the Company fails to pay the amounts due periodically, (that is the $250,000 along with any agreed adjustments under the adjustments provisions) then the amounts will revert to $1,020,000 annually. In the said Rescheduling Agreement existing defaults and other default interests were forgiven by the Debenture holder. Additionally, the Company agreed with the Debenture holder to issue 15,315,316 in lieu of $1,020,000 interest obligations that were outstanding at the date of the Rescheduling Agreement. This has caused our indebtedness under the Debenture to be reduced by $1,020,000 resulting in a positive impact on our cash flow statement and our balance sheet.

NOTE 12 – SUBSEQUENT EVENTS

None