



# **Coda Octopus Group, Inc.**

## **Annual Report**

**November 1, 2013–October 31, 2014**

### **Address:**

4020 Kidron Road

Suite #4

Lakeland

Florida 33811

Phone: + 1 801 973 9136

Fax: + 1 801 973 9285

Email: [info@codaoctopusgroup.com](mailto:info@codaoctopusgroup.com)

Symbol: CDOC

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

Fiscal Year: 10/31

**February 18, 2015**

# OUR GROUP



Coda Octopus Group, Inc.



## 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.

## Contents

Item 1: The exact name of the issuer and its predecessor (if any) .....	5
Item 2: The address of the issuer’s principal executive offices .....	5
Item 3: Security Information.....	5
Item 4: Issuance History.....	7
Item 5: Financial statements.....	7
Item 6: Business .....	17
Item 7: Facilities .....	40
Item 8: Officers, Directors, and Control Persons as of October 31, 2014.....	41
Item 9: Subsequent Event .....	43
Item 10: Third Party Providers .....	44
Item 11: Issuer’s Certifications.....	44
Financial Statements.....	45

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

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

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 contact is:

4020 Kidron Road  
Suite #4  
Lakeland  
Florida 33811  
Phone: + 1 801 973 9136  
Fax: + 1 801 973 9285  
Email: [info@codaoctopusgroup.com](mailto:info@codaoctopusgroup.com)

**Item 3: Security Information.**

Trading symbol: CDOC

Securities outstanding: Common stock and Series A Preferred Stock.

CUSIP: 19188U 10 7

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

The Par value of Preferred Stock Series A is \$.001 per share

The name and address of our transfer agent is:

Olde Monmouth Stock Transfer Co., Inc.  
200 Memorial Parkway  
Atlantic Highlands  
New Jersey 07716  
Phone: +1 732 872-2727  
Fax: +1 732 872-2728  
[www.oldemonmouth.com](http://www.oldemonmouth.com)

Our transfer agent is registered under the Exchange Act.

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

<b>(i) Period end date:</b>	<b>October 31, 2014</b>	<b>October 31, 2013</b>	<b>October 31, 2012</b>
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	93,919,213	93,776,356	89,754,976
(iv) Freely tradable shares (public float);	36,022,482	36,047,482	35,787,482
(v) Total number of shareholders of record	288	293	293

### Series A Preferred Stock

<b>(i) Period end date:</b>	<b>October 31, 2014</b>	<b>October 31, 2013</b>	<b>October 31, 2012</b>
(ii) Number of shares authorized	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding (See Note 6 to Financials)	6,287	6,287	6,287
(iv) Freely tradable shares (public float)	-0-	-0-	-0-
(v) Total number of beneficial shareholders	4	5	5
(vi) Total number of shareholders of record	4	5	5

As of February 18, 2015, the Company had issued and outstanding 93,919,213 shares of common stock and 6,287 shares of Series A preferred stock (See Note 6 to Financials for more information on the Series A preferred stock).

#### **Item 4: Issuance History**

On March 5, 2013 the Company issued 4,021,380 shares to CCM LLC in full and final satisfaction of an amount of \$571,036 (which formed part of a series of small loans which the holder of the senior secured debt had made available as working capital to the business in March 2011) and in consideration for postponing to maturity a portion of certain interest payments on a debt obligation.

On July 24, 2014 the Company issued 142,857 shares of common stock to Core Fund LLP in return for the surrender of warrants to purchase shares of common stock of the Company. These warrants were issued to Core Fund in a financing transaction completed in May 2007. The warrants should have been exchanged for shares in October 2010 as part of the Company's restructuring efforts. As a result of administrative oversight, these shares were not issued until July 2014.

All securities were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 4(2) thereunder (except as specifically set forth above), as they were issued in reliance on the recipients' representation that they were accredited (as such term is defined in Regulation D), without general solicitation and represented by certificates that were imprinted with a restrictive legend. In addition, all recipients were provided with sufficient access to Company information. Similar restrictions and conditions also apply to the non-freely transferable shares that were issued prior to the last two financial years.

#### **Item 5: Financial statements.**

Audited financial statements for Coda Octopus Group, Inc. for the financial year ended October 31, 2014 are included in this Annual Report on pages 45 through to 74. The following audited financial statements are included herein:

1.	Consolidated balance sheet as of October 31, 2014 and October 31, 2013
2.	Consolidated statements of income and comprehensive income for the years ended October 31, 2014 and 2013
3.	Consolidated statement of changes in stockholders' equity for the years ended October 31, 2014 and 2013
4.	Consolidated statements of cash flows for the years ended October 31, 2014 and 2013
5.	Notes to consolidated financial statements for the years ended October 31, 2014 and 2013

The audited consolidated financial statements include the accounts of Coda Octopus Group, Inc., and our domestic and foreign subsidiaries, all of which are wholly owned. 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 audited 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.

## **Management discussion and analysis of financial condition and results of operations**

### **A. Background**

Coda Octopus Group, Inc. and its subsidiaries are experts in sub-sea marine technology. We are also involved in marine engineering provided through two of our wholly owned subsidiaries.

The following brief overview highlights some of the major issues that currently impact the Company's business.

- i. The Group's business is subject to influence from at least three factors:
  - a. the price of oil, which affects the ability of oil and gas companies and their suppliers to purchase technology such as that sold by the Group's Marine Technology Business;
  - b. the allocation of funds to defense procurement by governments in the USA and UK; and
  - c. the general economic environment.
- ii. The Group has very limited external sources of liquidity available, and as such is reliant upon its ability to sell its products and services to finance its operations and service the Debentures. The Group currently has certain limited overdraft facilities from its bankers. However, we cannot guarantee that these facilities will continue to be available.
- iii. We have a contractual commitment to complete the purchase of a new building located in Salt Lake City for \$1,200,000 in cash. This is intended to house the operations of Coda Octopus Colmek (Manufacturing, Research and Development Facility along with Office Space).
- iv. The Marine Technology Business is seeing a change in the trends vis-à-vis its flagship products and more customers are electing to lease (either from ourselves or our customers) rather than purchase the equipment. We are therefore experiencing competition from some of our customers who offer this product in the leasing market. If we fail to develop a strategy in response to this new trend (given our fixed overheads and cost of production etc.), this could have an adverse effect on the Group as a whole. This is further compounded by the substantial reduction in both capital and operational expenditure budgets in the oil and gas exploration sector. This means that we are also likely to see a reduction in the demand for the leasing/rental of our equipment and also purchase.
- v. The Company is being sued for alleged breach of contract and negligent misrepresentation by a number of investors who purchased shares of Common Stock and Warrants in the Company between April and May 2007 in a series of Securities Purchase Agreements between them and the Company. Among other things, they are seeking a number of shares that would give them



absolute control of the Company. The Company denies their claims and intends to defend itself vigorously against these claims (See Item 6, subsection 8 (Legal Proceedings)) for more information on this claim).

## **B. Results of Operations**

Coda Octopus Group is comprised primarily of two business segments: the Marine Technology Business, our products business (see item 6 for more information on this business), and the Marine Engineering Business, our service business (see item 6 for more information on this business).

Our Marine Technology Business sells its products and associated services to the oil and gas sector, underwater construction and marine sciences sector. This segment generated approximately 57% and 67% of our total revenues for the fiscal years ended October 31, 2014 and 2013, respectively.

Our Marine Engineering Business largely sells its services into prime and sub-prime defense contractors and generated approximately 43% and 33% of our total revenues for the fiscal years ended October 31, 2014 and 2013, respectively.

During the fiscal year ended October 31, 2014, the Company's financial performance has declined compared to the same period for the previous financial year. This decline in our revenues is largely due to the downturn in the oil and gas sector (which analysts have been predicting during 2014) where investment in these activities has slowed significantly due to the falling price of oil and other geopolitical issues which currently affect this sector. This has resulted in reduction in both capital and operational expenditures in this sector resulting in many oil and gas projects that would normally use our products being postponed, rescheduled or cancelled. This decline has resulted in lower sales of our products and associated services into this sector, thus adversely affecting the financial performance of our Marine Technology Business and our overall revenues.

Abrupt and large drops in the oil price did not occur until the second half of 2014 which coincides with the Company's fourth fiscal quarter. Nevertheless, analysts had previously anticipated an uncertain near future for the price of this commodity. This prompted industry participants to start making plans to scale back investments and operations as early as 2013. As a result, the Company's revenues were negatively impacted starting from the first quarter of fiscal year 2014.

For further information on the composition of our revenues between the Marine Technology Business (Products Business) and the Marine Engineering Business (Service Business), please see Segment Analysis below.

### **Segment Analysis**

Due to the nature of our businesses, we are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations. Coda Octopus Martech and Coda Octopus Colmek operate as contractors (Marine Engineering Business), and the balance of our operations (Marine Technology Business) are comprised of product sales.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate includes general corporate administrative costs.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies.

There are inter-segment sales in the table below which have been eliminated from our financial statement. However for the purpose of segment reporting, these are included in the table below only.

The following tables summarize certain balance sheet and statement of operations information by reportable segment for the financial years ending October 31, 2014 and 2013, respectively.

<b>Fiscal Year Ended 2014</b>	<b>Marine Technology Business (Products)</b>	<b>Marine Engineering Business Colmek (Services)</b>	<b>Marine Engineering Business Martech (Services)</b>	<b>Corporate</b>	<b>Total</b>
Revenues from External Customers	\$ 9,387,525	\$ 5,289,180	\$ 1,769,566	\$ -	\$ 16,446,271
Cost of Revenues	2,473,470	2,668,516	1,218,920	-	6,360,906
<b>Gross Profit</b>	6,914,055	2,620,664	550,646	-	10,085,365
Research & Development	1,128,542	-	-	-	1,128,542
Selling, General & Administrative	3,112,318	1,561,465	474,996	672,689	5,821,468
<b>Operating Income (Loss)</b>	2,673,195	1,059,199	75,650	(672,689)	3,135,355
<b>Other Income (Expense)</b>					
Other Income	5,388	-	938	-	6,326
Interest Expense	(542,842)	(260,243)	(254,358)	(517,261)	(1,574,704)
Unrealized loss on sale of investment in marketable securities	-	-	-	(9,719)	(9,719)
<b>Total other income (expense)</b>	(537,454)	(260,243)	(253,420)	(526,980)	(1,578,097)
Income (Loss) before income taxes	2,135,741	798,956	(177,770)	(1,199,669)	1,557,258
Income tax refund (expense)	92,937	(23,792)	-	-	69,145
<b>Net Income (Loss)</b>	\$ 2,228,678	\$ 775,164	\$ (177,770)	\$(1,199,669)	\$ 1,626,403

#### **Supplemental Disclosures**

Total Assets	\$ 11,336,875	\$ 6,863,067	\$ 2,882,346	\$ 109,412	\$ 21,191,700
Total Liabilities	\$ 2,061,140	\$ 1,105,630	\$ 494,999	\$ 14,826,856	\$ 18,488,625
Revenues from Intercompany Sales	\$ 2,295,145	\$ 243,774	\$ 327,037	\$ 1,468,201	\$ 4,334,157
Depreciation and Amortization	\$ 115,196	\$ 103,864	\$ 4,470	\$ 13,041	\$ 236,571
Purchases of Long-lived Assets	\$ 629,941	\$ 345,719	\$ 3,573	\$ 12,867	\$ 992,100

<b>Fiscal Year Ended 2013</b>	<b>Marine Technology Business (Products)</b>	<b>Marine Engineering Business Colmek (Services)</b>	<b>Marine Engineering Business Martech (Services)</b>	<b>Corporate</b>	<b>Total</b>
Revenues from External Customers	\$ 14,891,480	\$ 5,638,791	\$ 1,813,269	\$ -	\$ 22,343,540
Cost of Revenues	5,131,246	2,535,486	1,354,742	-	9,021,474
<b>Gross Profit</b>	9,760,234	3,103,305	458,527	-	13,322,066
Research & Development	1,032,108	-	-		1,032,108
Selling, General & Administrative	2,668,593	1,411,862	566,495	682,920	5,329,870
<b>Operating Income (Loss)</b>	6,059,533	1,691,443	(107,968)	(682,920)	6,960,088
<b>Other Income (Expense)</b>					
Other Income	41,442	-	436	-	41,878
Interest Expense	(552,328)	(260,755)	(254,823)	(523,701)	(1,591,607)
Unrealized gain on sale of investment in marketable securities	-			10,519	10,519
Gain (loss) on change in fair value of derivative liability	-			4,902	4,902
<b>Total other income (expense)</b>	(510,887)	(260,755)	(254,387)	(508,279)	(1,534,308)
Income (Loss) before income taxes	5,548,646	1,430,688	(362,355)	(1,191,199)	5,425,780
Income tax refund (expense)	(110,293)	-	-	-	(110,293)
<b>Net Income (Loss)</b>	\$ 5,438,353	\$ 1,430,688	\$ (362,355)	\$ (1,191,199)	\$ 5,315,487
<b>Supplemental Disclosures</b>					
Total Assets	\$ 12,659,823	\$ 4,414,350	\$ 2,746,809	\$ 285,612	\$ 20,106,594
Total Liabilities	\$ 1,712,149	\$ 185,457	\$ 780,955	\$ 16,528,234	\$ 19,206,795
Revenues from Intercompany Sales	\$ 4,441,048	\$ 35,042	\$ 495,747	\$ 1,030,487	\$ 6,002,324
Depreciation and Amortization	\$ 51,326	\$ 73,794	\$ 12,777	\$ 12,177	\$ 150,074
Purchases of Long-lived Assets	\$ 580,925	\$ 20,123	\$ 9,464	\$ 10,422	\$ 620,934

The Company's reportable business segments operate in three geographic locations. Those geographic locations are:

- \* United States
- \* Europe
- \* Australia

All inter-company sales have been eliminated from our financial statements. For the purposes of Segment Analysis reporting we are required to show inter-company sales and therefore the above table discloses this information.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the years ended October 31, 2014 and 2013 respectively:

External Revenues by Geographic Locations	UK	USA	Australia	Total
Fiscal Year 2013-2014	\$ 8,709,751	\$ 7,517,882	\$ 218,638	\$ 16,446,271
Fiscal Year 2012-2013	\$ 9,270,571	\$ 13,072,969	\$ -	\$ 22,343,540

Although our revenues have declined, our gross profit margins are increasing. This is largely due to the mix of our sales in the Group and the development of our new leasing operations that enable us to lease to our customers our real time 3D technology and support engineers to service companies.

Our Engineering Business in Salt Lake City (Coda Octopus Colmek) has seen an increase in its order take and we would anticipate that this side of our operations (which is unaffected by the decline in the oil and gas sector) will continue to grow in fiscal year 2014-15. This business is in the process of expanding and during the most recent fiscal year acquired a new product (Thermite®) along with an established customer base for this product. The Thermite® is a rugged, high-performance, graphics-based computer. It is used in video, graphics and sensor processing applications, in extreme environments where commercial computers do not survive. Our customers for this type of product typically use it in military helicopters, fighter jets, drones and ground-based robots. The Thermite® applications include high-end graphics and display processing, sensor signal processing, situational awareness, and system controls. It has been in use with a number of significant customers for a period of time.

We would expect that with the acquisition of Thermite®, the annual revenues in Colmek will increase. We are also continuing to develop the Thermite® product and would also expect this development to broaden the customer appeal for this product. Since its acquisition of the Thermite® product, Colmek has secured orders for this product in excess of \$260,000 from new customers.

In keeping with our plans to expand the Engineering Business (and to absorb some of our product manufacturing in the Marine Technology Business stream), we have entered into an agreement for the purchase of a new building located in Salt Lake City for a price of \$1.2 million in cash. The space comprises approximately 15,000 square foot building on .57 acres of land. Subject to satisfactory due diligence, we are contractually committed to complete the purchase of these premises in March 2015.

Our Engineering Business in Portland, England (Coda Octopus Martech Limited) recently started the production of the Decontamination Unit which forms part of the ground equipment for a well established European military aircraft program. During the most recent fiscal year, Martech has secured production orders totaling \$1,500,000.

### **C. Senior Debentures and Restructuring Efforts**

Since February 21, 2008 our Balance Sheet also includes a \$12 million convertible secured debt ("Debentures"). In addition to this principal amount, the Debentures provide for a redemption premium of 30%. A primary focus of management 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.

On August 18, 2014 the Company and the Debenture Holder entered into a Deed of Amendment to extend the maturity date of the Debentures (which under their original terms matured on February 21, 2015) to August 21, 2016. Extension of the maturity date is subject to the Company adhering to its loan covenants including payment of all amounts on their due dates.

On September 18, 2014, the Company redeemed Debentures with a \$2,000,000 face value reducing the principal amount to \$10,000,000. As a result, on October 31, 2014, the total indebtedness under the Debentures, including the stipulated redemption premium of 30% and accrued interest, was \$14,611,738.

A reconciliation of the Debentures is as follows:

	<u>2014</u>	<u>2013</u>
Bond Principal	\$ 10,000,000	\$ 12,000,000
Accrued Interest	1,191,816	965,150
Accrued Terminal Conversion Premium	<u>3,419,922</u>	<u>2,919,922</u>
Total Bond Payable	<u>\$ 14,611,738</u>	<u>\$ 15,885,072</u>

The Company also agreed with the holder of the Debenture that redemption premiums would not be due on any amounts redeemed after February 21, 2015. The redemption of the \$2,000,000 of Debentures results in a saving of \$170,000 per annum since the interest is now payable on \$10,000,000. The Debentures continue to pay the stipulated 8.5% interest per annum.

Until the outstanding litigation is resolved (see Item 6, subsection 8 of this Report for more details), the Debenture Holder is unwilling to negotiate the final restructuring of the Debentures thus making it extremely difficult for the Company to continue to seek refinancing for a portion of, or all of, the Debentures.

***Comparison of audited full year ended October 31, 2014, with audited full year ended October 31, 2013.***

***Revenues for the full year ended October 31, 2014 compared to full year ended October 31, 2013***

Year Ended October 31, 2014 Audited	Year Ended October 31, 2013 Audited	Percentage Change
\$16,446,271	\$22,343,540	Decrease of 26.4% ("Decrease")

We believe that the Decrease in revenues is due largely to the downturn in the oil and gas sector which has especially impacted our Marine Technology Business. The Oil and Gas Sector has seen large

reduction in capital and operational expenditures which has resulted in delays or cancellation of projects which has had an adverse impact on the sales of our products overall.

***Gross Margins for the full year ended October 31, 2014 compared to full year ended October 31, 2013***

<b>Year Ended October 31, 2014</b>	<b>Year Ended October 31, 2013</b>	<b>Percentage Change</b>
<b>Audited</b>	<b>Audited</b>	
61.4%	59.6%	Increase of 1.8% ("Increase")

This increase in gross margin percentage reflects a different mix of sales and increased margins from our new revenues stream (lease of our real time 3D technology products).

***Research and Development (R&D) for the full year ended October 31, 2014 compared to full year ended October 31, 2013***

<b>Year Ended October 31, 2014</b>	<b>Year Ended October 31, 2013</b>	<b>Percentage Change</b>
<b>Audited</b>	<b>Audited</b>	
\$1,128,542	\$1,032,108	Increase of 9.3% ("Increase")

This Increase in our Research and Development expenditures is consistent with our strategy to invest in the continuing development of our core technology and also bring new products to the subsea market.

With our strategy of continuing development of our key technology committed in this and the next three years, we would expect to see a further material increase in our Research and Development expenditures. In this connection, during the fiscal year ended October 31, 2014 and subsequent to this, we have commenced the development of a new sonar product through our subsidiary Coda Octopus Colmek. With this new product we will have a broader range of sonar products that will permit penetration of wider market segments. The Research and Development costs associated with this new product is estimated to be around \$600,000. Within our Research and Development expenditures reported in fiscal year ended October 31, 2014, \$154,135 is attributed to this new product.

We have also committed significant expenditures on developing a smaller version of our established Echoscope® product. It is expected to measure approximately two-thirds of the size of the current Echoscope and will be suitable for the remotely operated vehicle (ROV) markets. Within our Research and Development expenditures reported in the fiscal year ended October 31, 2014, \$20,000 is attributed to this new product.

In summary, within our fiscal year 2014 we have exceptional expenditures relating to new product development of \$174,135.

***Selling, General and Administrative Expenses (SG&A) for the full year ended October 31, 2014 compared to full year ended October 31, 2013***

<b>Year Ended October 31, 2014</b>	<b>Year Ended October 31, 2013</b>	<b>Percentage Change</b>
<b>Audited</b>	<b>Audited</b>	
\$5,821,468	\$5,329,870	Increase of 9.2% ("Increase")

The Increase in our SG&A is attributable mainly to investments we are making in sales and business development personnel and establishing new operational entity in Perth, Australia, where we have incurred in the fiscal year ended 2014 approximately \$88,500 as relocation expenditures and some non-recurring costs associated with setting up offices in Perth Australia. Our Legal and Professional Fees have also increased due to the ongoing litigation (See Item 6, subsection 8 of this Report for more details).

***Key Areas of SG&A Expenditure across the Group for the full year ended October 31, 2014 compared to the full year ended October 31, 2013***

<b>Expenditure</b>	<b>October 31, 2014</b>	<b>October 31, 2013</b>	<b>Percentage Change</b>
Wages and Salaries	\$4,077,606	\$3,916,623	Increase of 4.1%
Legal and Professional Fees (including accounting, audit and investment banking services)	\$696,239	\$605,276	Increase of 15.0%
Travel Costs	\$208,318	\$83,441	Increase of 149.7%
Rent for our various locations	\$323,907	\$354,509	Decrease of 8.6%
Marketing	\$154,495	\$190,091	Decrease of 18.7%

Our management anticipates modest increases in our SG&A expenditures as we cautiously invest in our sales and marketing efforts. Furthermore, with the opening of our offices in Australia in January 2014, we incurred significant relocation costs for key personnel.

The significant increase in our travel costs is in keeping with our new business development strategy, which involves increased travel to meet with potential customers or to participate in industry trade events.

In addition, we expect an increase in Legal and professional fees from the ongoing litigation (See Item 6, subsection 8 of this Report for more details).

***Operating Income for the full year ended October 31, 2014 compared to full year ended October 31, 2013.***

<b>Year Ended October 31, 2014</b> <b>Audited</b>	<b>Year Ended October 31, 2013</b> <b>Audited</b>	<b>Percentage Change</b>
\$3,135,355	\$6,960,088	Decrease of 55.0% ("Decrease")

The Decrease in Operating Income compared to previous years is attributable to the decrease in our revenues for the reasons discussed on page 11 above. As discussed earlier, in the fiscal year ended October 31, 2014 our Marine Technology Business revenues have fallen significantly due to the uncertainties in the oil and gas sector throughout the recent fiscal year which ended on October 31, 2014. Many of our customers have either postponed or cancelled their projects, which has had a deleterious effect on our sales into this sector. This was further compounded by the restricted movement of personnel in certain geographies where these activities take place, due to the outbreak of Ebola.

***Other Income for the full year ended October 31, 2014 compared to full year ended October 31 2013.***

<b>Year Ended October 31, 2014</b> <b>Audited</b>	<b>Year Ended October 31, 2013</b> <b>Audited</b>	<b>Percentage Change</b>
\$6,326	\$41,878	Decrease of 84.9%

Our income statement has historically contained exceptionally high amounts relating to Other Income.

We anticipate that Other Income will not contain significant amounts going forward. Historically, Other Income resulted largely from our restructuring during the fiscal years 2010 through 2012 when we realized certain reductions of our commitments under various arrangements.

***Interest Expense for the full year ended October 31, 2014 compared to full year ended October 31, 2013***

<b>Year Ended October 31, 2014</b> <b>Audited</b>	<b>Year Ended October 31, 2013</b> <b>Audited</b>	<b>Percentage Change</b>
\$1,574,704	\$1,591,607	Decrease of 1.1%

The Interest Expense numbers shown above, include both interest payments attributable to the Senior Convertible Debentures and amortization of the 30% redemption premium for the said Debentures. The percentage change reflects the reduction in the principal amount by \$2,000,000 and the reduction in interests and in the amount accrued for redemption premium.



**Net Income for the full year ended October 31, 2014 compared to full year ended October 31, 2013**

<b>Year Ended October 31, 2014</b> <b>Audited</b>	<b>Year Ended October 31, 2013</b> <b>Audited</b>	<b>Percentage Change</b>
\$1,626,403	\$5,315,487	Decrease of 69.4% ("Decrease")

This significant Decrease in Net Income is attributable to the decrease in our revenues which is largely due to the fall in revenues in our Marine Technology Business as a result of the decline in the activities within the oil and gas sector which is a core market for the products of the Marine Technology Business. This has resulted in less sales of our products into that sector in the fiscal year ended 2014.

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" below.

*Off Balance Sheet Arrangements*

There are no material off balance sheet arrangements in the Group in this or the prior period.

**Item 6: Business**

**1. 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 19 below.

Our Group comprises the sub-sea Marine Technology Businesses that are conducted through our three wholly owned subsidiaries, Coda Octopus Products Limited (United Kingdom), Coda Octopus Products, Inc. (USA.) and Coda Octopus Products Pty Limited (Australia).

Our most important product, the patented Echoscope® (and its derivatives such as Dimension® and our Underwater Inspection System (UIS™)), generates high resolution real time images in 3D of the underwater environment and gives particular benefits in turbid/zero visibility environments. The Echoscope® gives the user reliable underwater intelligence in real time. We are unaware of any other sonar devices that provide 3D real time visualization capabilities with the range and resolution of the Echoscope®.

We believe the software used with the Echoscope®, CodaOctopus Underwater Survey Explorer, to be cutting edge in providing what we believe to be 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 such as real time monitoring, complex mapping and dynamic surveys.

The Group also comprises the Marine Engineering Businesses 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 operations, which have long established defense 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 developed the prototype and now manufactures a decontamination unit which forms part of the recommended ground equipment for a major international military aircraft program.

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

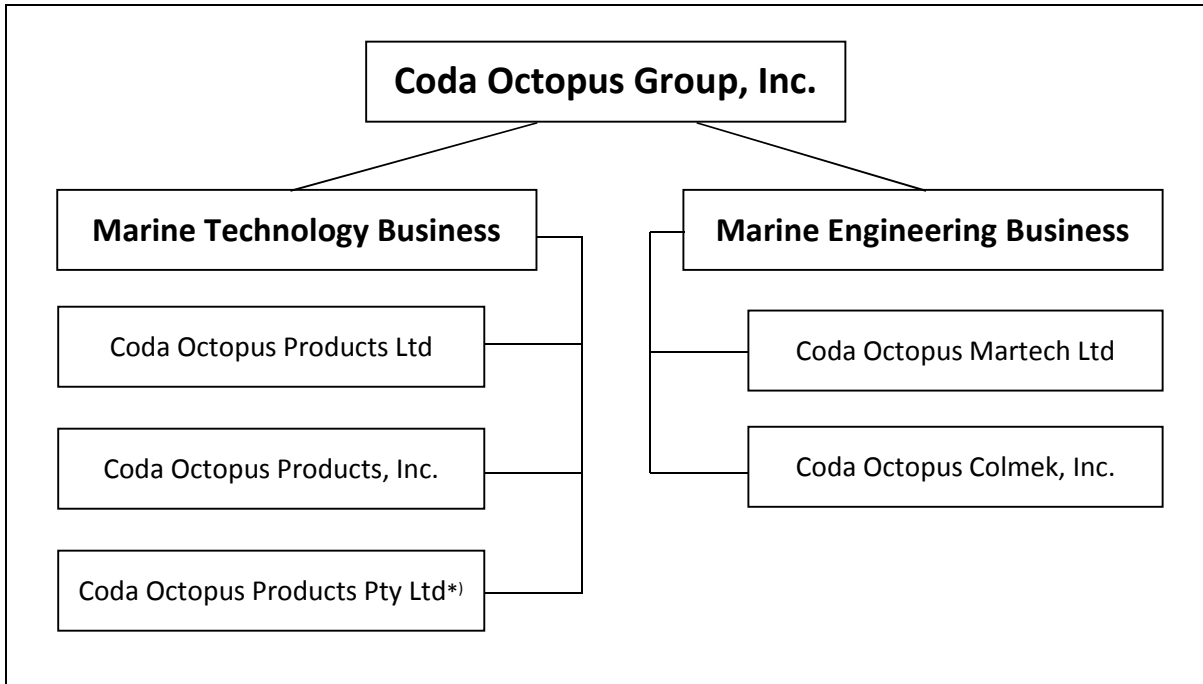
- Martech is LRQ accredited ISO9001:2008 and TickIT Guide Issue 5.5.
- Colmek is ISO9001:2008 compliant.

Martech is now fully established in new facilities owned by the Marine Technology Business and will be providing more support to the Marine Technology Business on developing and supporting its flagship real time 3D Products.

The engineering capability within our Group (at the date of this Report we have approximately 70 highly skilled engineers) forms a key part of our strategy for developing our existing technologies and new ones for the marine markets.

## 2. GROUP STRUCTURE

Our Group Structure is as follows:



\*) This company was formed in December 2013.

In addition, we 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.

## 3. Marine Technology Business

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

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

In the commercial marine geophysical survey sector, our products include geophysical data acquisition systems, 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 possess an important and unique technology that 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 (CORDAS), Norway, which we acquired in 2002 and our software development team based in Edinburgh, United Kingdom.

Since the acquisition of CORDAS 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™) and new derivative products, such as our forward looking sonar - Dimension®. The UIS™ integrates the Echoscope® with, amongst other elements, our positioning device, the CodaOctopus F180® to make a real time underwater inspection and surveillance device. The UIS 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® technology both on the hardware and software elements.

A series of trials by independent experts and operators in the marine / subsea market 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. We believe that the Echoscope®, which is being referred to by one of our significant customers as “[their] underwater eyes”, is making progress in shifting the conservative approach of the sonar market. As a result, we believe that this product is now being viewed as the product of choice in many complex operations. Moreover many users of the Echoscope® report significant productivity gains in their operations and hence reduction of the costs of these 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 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 salvage 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 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, branded 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. Therefore, we 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.

Under our Technology Access Program (TAP) there has been considerable progress in introducing our real time 3D technology, the Echoscope®, to Oil and Gas (O&G) majors and renewables. However, many oil and gas operators do not purchase equipment (instead, they rent or lease). This in the short run could impact on our sales of this product and reduce our profitability.

### **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:

<b>Patent Number</b>	<b>Description</b>
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.
US Patent No. 8,854,920	Concerns a method of volumetric rendering of three dimensional sonar data sets

#### **Trademarks**

We own the following registered trademarks: Coda®, Octopus®, CodaOctopus®, Octopus & Design®, F180®, Echoscope®, Survey Engine®, GeoSurvey®, Dimension®, DAseries® and Thermite®.

We also use the following trademarks: F170™, F175™, UIS™ TEAM™ and TEAM+™. In addition, we have registered a number of internet domain names.

#### **4. Our Marine Engineering Businesses**

We operate our marine engineering and defense business through our two marine engineering services subsidiaries, Coda Octopus Martech Limited, based in Portland (Dorset), 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 can 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.

Both of our engineering companies form part of our core strategy for the next 3 years and have been involved in major product development for the Group in the financial year reported. Coda Octopus Colmek has developed our Ruggedized Echoscope® which is a key product for the underwater construction markets and Martech has developed our 3D pan and tilt unit which is an integrated key application for the Echoscope® and its derivate product the Dimension®. Both these products were brought to the market in 2014. Furthermore, Coda Octopus Colmek is currently designing a new sonar product for our Marine Technology Business and we would expect to bring this to the market in late 2015.

### **Unique Selling Propositions and Prospects**

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

- First mover advantage in real-time 3Dsonar 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 real time 3D 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 including on both the hardware and software side.
- We are the 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. The first of these products, the Dimension®, has been launched and is currently being evaluated by a number of significant customers. We have recently sold our first Dimension® product and expect in the next financial year to see an uptake of this product in our 2015 fiscal year.

- We believe that our technology is poised to be the next generation sonar tool of choice in a number of sectors. Examples include the underwater construction sector where significant time savings and health and safety benefits are consistently reported and the port security area where our Underwater Inspection System (UIS) gains equal recognition for its capabilities. We believe that the UIS is currently recognized in many sectors as the only available solution.
- The Echoscope® is now being recognized as a product capable of delivering significant benefits in multiple applications. As a result, many underwater construction companies are revising their methodologies for making breakwaters or subsea asset placements (such as sleepers or Accropodes™). 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.

## **5. Corporate History**

We began as Coda Technologies Limited (now Coda Octopus Products Ltd), a United Kingdom corporation that 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® and its derivative product Dimension®), 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 of Panda Project, Inc. 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 New York that 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 and the surrender of the warrants by a number of purchasers, the Company issued

21,857,143 shares of common stock to a number of these subscribers. The surrendered warrants were cancelled by the Company. All warrants issued to this class have now either been surrendered pursuant to the arrangement described above or have expired.

On February 21, 2008, we borrowed \$12 million (of which \$2 million was redeemed during the year ended October 31, 2014) under a convertible secured promissory note (“Debentures”). The terms of the Debentures provide for a Redemption Premium of 30% upon redemption or maturity (whichever occurs earlier). 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 original maturity date for the Debentures was February 21, 2015. In August 2014 the Company and the Debenture Holder agreed to an extension of the maturity date to August 21, 2016, subject to the Company keeping current under its loan covenants.

We have started the process of restructuring the debt and to this end, we have reached an agreement with the current Debenture holder to extend the maturity date from February 21, 2015 to August 21, 2016. This is subject to the Company keeping current in its obligations under the Debenture Agreement. The debt is therefore classified in our financials as long term since at the fiscal year ended October 31, 2014, this has more than one year to its maturity.

## **6. 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 competitors' real time 3D projects that 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 Businesses

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. In this segment, our strongest competitors are our clients themselves. As a result, of their size, they often have the option to proceed with a project in-house instead of outsourcing to a sub-contractor like Martech or Colmek.

### **7. 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 repay the outstanding Debentures when due or restructure this debt obligation, our largest creditor may foreclose on our assets.***

In February 2008, we issued \$12 million in Secured Convertible Debentures. As of October 31, 2014 the principal amount outstanding under the Debentures was \$10 million. As of October 31, 2014 the total amount on our balance sheet which represents the principal amount, interests and redemption premium is \$14,611,738.

The terms of the Debentures provide for a Redemption Premium of 30% upon redemption or maturity (whichever occurs earlier). Our obligations under the Debentures are secured by all our assets. The Debentures incur interest of 8.5% per annum. The Debentures mature on August 21, 2016. After accounting for the Redemption Premium and accrued interest, we expect that the total amount due at maturity will be in excess of \$15 million.

The Company does not currently have the cash to repay the all of the Debentures. Moreover, in the absence of a significant increase in the Company's cash flow from operations, it cannot provide assurance that it will have the cash available at the maturity date of the Debentures. If we are unable to pay off the Debentures in a timely manner or renegotiate their repayment terms, the holder of the Debentures has the right to, amongst other things, foreclose on all of the Company's assets.

In addition, to the extent that we are successful in renegotiating the Debentures, this will likely require the issuance of large numbers of shares of common stock that may result in significant dilution of our existing shareholders. Renegotiation of the terms of the Debentures is unlikely to take place until the current litigation reported in Item 6, subsection 8 of this Report is resolved.

***If we lose a lawsuit by a number of investors, we may lose control of the Company's affairs***

In January 2014 a number of investors who purchased Company shares and warrants pursuant to a series of securities purchase agreement during April and May 2007 ("Securities Agreement") instituted legal proceedings against the Company and one of our Directors. These investors allege, inter alia, breach of contract and negligent misrepresentation when the Company issued securities which they claimed constituted Dilutive Issuances (as the term is defined in the Securities Agreement). These plaintiffs are seeking from the Company (i) the issuance of 97,618,439 shares of common stock; and (ii) adjustment of the exercise price under the plaintiffs' Warrants; and (iii) reinstatement of the Warrant and adjustment of the exercise price of the Warrants and number of shares issuable under the Warrants; and (iv) their costs and reasonable attorneys' fees incurred; and (v) any other relief the Court deems just and proper.

The Company is defending itself against vigorously the plaintiffs' allegations. However, there can be no assurance that the Company will prevail in the lawsuit. If the Company loses the lawsuit, it may be forced to issue shares and restate warrant exercise prices to an extent that would give to the plaintiff's

absolute control of the affairs of the Company. If that were to occur, the future of the Company will be uncertain.

***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.

We have no current arrangements with respect to any additional financing except for a limited overdraft facility with our UK banks and a limited line of credit available to Coda Octopus Colmek, Inc. Consequently, there can be no assurance that any additional financing on commercially reasonable terms is or will be available at all when needed.

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;
- (v) Our ability to renegotiate the terms of the existing secured loan agreement under which we owe \$10million plus certain postponed interest payments and redemption premium and which matures in August 2016 unless converted into our Common Stock; and
- (vi) Our ability to maintain and improve the performance of the Company, which is largely dependent on the ability of management to focus on the core drivers for growth.

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.

***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 which is particularly relevant when oil prices are at the very low current level. Typically our products sell when the price of oil is \$100 or more. Currently, with the low price of oil, there is considerable risks that our revenues generated from our Marine Technology Business will decline significantly
- our ability to respond to reduced revenues is limited since our costs are fixed or the costs of reducing our overheads over a short period will be considerable.
- 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;
- 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; and
- competing products being introduced by our competitors.

***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, practices and requirements for our current products or services;
- 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.

***Leasing of our real time 3D products while providing a good rate of return is high risk as under the terms of doing business with our customers offshore, we bear the risks of equipment failure (and, in event of such failure, we will not be paid the contractual rental rate for such equipment rental or service engineers who operate the equipment).***

***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.

## **8. Legal Proceedings**

On or around January 6, 2014 a number of investors who subscribed for shares and warrants pursuant to a series of securities purchase agreement in April and May 2007 (“Securities Agreement”) and to which the Company was a party have instituted legal proceedings against the Company and one of our Directors in the Supreme Court of the State of New York (“**Claim**”). In their Claim these investors allege, inter alia, breach of contract and negligent misrepresentation. The investors who have brought this Claim against the Company are: Iroquois Master Fund Limited, Rockmore Investment Master Fund Ltd, Cranshire Capital, LP, Scot Cohen, Richard Abbe, Phillip Mirabelli and Joshua Silverman (together “**Complainants**”).

In summary the Complainants allege that the Company issued securities which constituted Dilutive Issuances (as the term is defined in the Securities Agreement). These Complainants assert in their Claim that they are seeking from the Company (i) the issuance of 97,618,439 shares of common stock; and (ii) adjustment of the exercise price under each of the Complainant’s Warrants; and (iii) reinstatement of the Warrant and adjustment of the exercise price of the Warrants and number of shares issuable under the Warrants; and (iv) their costs and reasonable attorneys’ fees incurred; and (v) any other relief the Court deems just and proper.

These proceedings are ongoing and the Company and the Director intend to vigorously defend these claims.

## 9. The nature of products and services offered.

### Our Products

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 the “CodaOctopus” brand and consist of three product lines:

-  /3D which includes our unique and patented real time 3D sonars and cutting-edge software that is shaping the future of subsea operations;
-  /GEO which includes integrated hardware acquisition devices with feature rich post-processing software for all levels of geophysical survey work
-  /MOTION comprising a range of GPS-aided precision attitude and positioning systems and post-processing software for all types of marine survey and positioning work.

#### Data acquisition and interpretation systems

**CodaOctopus 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, CodaOctopus GeoSurvey™ has been purchased by numerous leading survey companies throughout the world.

This product range includes:

**CodaOctopus 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

**CodaOctopus 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.

**CodaOctopus 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 comprises:

The DA4G™ series of acquisition systems which provide 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 **CodaOctopus F180®** and more recently introduced **CodaOctopus 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.

### 3D Imaging

There are now three products within the real time 3D sonar: the Echoscope®, the Dimension® and the CodaOctopus Underwater Inspections System (UIS).

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 we are unaware of any other product with the capabilities of the Echoscope®. The heightened awareness of terrorist attacks over the last decade has resulted in a demand for practical, effective and rapid methods of detecting potential threats (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 (CodaOctopus Underwater Survey Explorer) 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 that allows us to tailor solutions and provide custom development to our clients for their increased efficiency and commercial gain.

### Dimension®

Designed for the ROV market, the Dimension® real time 3D forward looking sonar with CodaOctopus Vantage software offers a step-change view to ROV pilots. With a user-selectable quad-view of the scene in front of the ROV, the pilot can maneuver, navigate and monitor with confidence during zero visibility conditions.

Based on patented Echoscope® technology and industry-leading software, Dimension® provides unparalleled real-time visualization for subsea vehicle applications. Designed for a wide range of ROVs, Dimension® is a unique, true real-time 3D sonar that transforms ROV underwater operations.

For ease of integration the Dimension® sonar is also supplied with the CodaOctopus® Vehicle Integration Module (VIM). The VIM is vehicle mounted and connects directly to the Dimension® sonar providing interfaces to the ROV power, data and control sub-systems.

Using the CodaOctopus Vantage software suite and advanced beamforming techniques, the Dimension® sonar provides the ROV pilot with a unique quad-view for safe navigation and obstacle avoidance purposes. The Vantage quad-view features a conventional plan-view, commonly provided by scanning sonars, along with three additional and separate real-time perspectives of the subsea environment.

The Dimension® is a newly launched product and will take time to gain acceptance in the market place. However, it is currently being evaluated during a number of ongoing operations by companies interested in the Product.

### **Our Services**

Our Marine Engineering Businesses, Coda Octopus Martech Limited (based in Portland, Dorset, England, United Kingdom) and Coda Octopus Colmek, Inc. (based in Salt Lake City, Utah, USA) operate in the defense space. We provide engineering services to a wide variety of clients in the subsea and defense markets. A significant part of these services are provided to prime and second level defense

contractors and are often for prototype productions which lead to long term manufacturing contracts. This arrangement often gives these companies preferred supplier status for long term manufacturing contracts and the obsolescence management for such customers. The engineering capabilities within our Group are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

#### **Coda Octopus Martech Limited (“Martech”) – Based in Portland, (Dorset), 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 units which will become ground equipment for a major international military aircraft program. These decontamination units now forms part of the recommended ground equipment for this aircraft. We have already secured the work for the production of the first series of these and are optimistic that that this will become a significant revenue stream for Martech over the coming years.

Martech competes with larger contractors in the defense industry. Typical among 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. In this financial year, the Marine Technology Business acquired a Manufacturing and Consolidated Plant in Portland (Dorset), England and this facility will be co-located with Martech operations. The Marine Business has leased these premises to Martech.

Martech has now moved to more modern and technologically advanced premises and this should enable it to win more business going forward.

### **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.

In 2014 Colmek acquired two business streams comprising (i) designing, manufacturing and supplying embedded rugged computers sold under the brand names of Thermite® and (ii) the design, development and supply of the Sentiris® AVI video boards. Since the acquisition of the Thermite product it has received orders for this product having a value of \$260,000.

*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 7: Facilities**

**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. In 2012, the Company acquired this 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 expired on September 30, 2014 and is now on a month by month lease arrangement. Coda Octopus Colmek has now signed a contract for the purchase of new premises comprising approximately 15,000 square foot building on .57 acres of land and located in Salt Lake City, Utah. Subject to satisfactory due diligence, Colmek will complete the purchase of these premises in March 2015 for a price of \$1.2m cash.

**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 2<sup>nd</sup> 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.

This lease expires on February 28, 2019. The rent is stated in British Pounds at £32,792 per annum 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 with effect from February 28, 2017.



During fiscal year 2013, Coda Octopus Products Limited acquired in the previous financial year a Manufacturing and Consolidation Plant (Portland, Dorset, England). This Plant is being used to advance its technology, serve as a consolidation point for its products before shipment to customers and operate as its product repair center. These premises comprise 9,890 square feet and have been sub-leased to Coda Octopus Martech.

Coda Octopus Products Limited 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 \$11,500 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations).

**Portland, Dorset, England, UK.** Martech leases premises from Coda Octopus Products Limited. These premises are located in the Marine Center, at 17 Mereside, Portland, Dorset DT5 1PY, United Kingdom, and comprise 9,890 square feet and were acquired by Coda Octopus Products Limited in September 2013. The building comprises both office space and manufacturing and testing facilities. The lease, which is for a period of 5 years, provides for an annual rent of the equivalent of \$51,000 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations). These premises gives easy access to marine facilities such as testing vessels etc.

**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 per annum (the rent is stated in Norwegian Kroners and is therefore subject to exchange rate fluctuations) per annum and expires on May 31, 2015. The Company is currently negotiating an extension of the term of the lease.

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

## **Item 8: Officers, Directors, and Control Persons as of October 31, 2014**

### A. Officers and Directors:

- Michael Hamilton, Director and Chairman of the Board
- Robert Ethrington, Director
- Annmarie Gayle, LL.B, LL.M, Group Chief Executive Officer and Director
- Geoff Turner, Executive Director and Deputy Chief Executive Officer
- Blair Cunningham, President of Technology and Director
- Mike Midgley, Acting Chief Financial Officer and CEO of our subsidiary Coda Octopus Colmek, Inc.

### Control persons as of February 18, 2015

- Greenhouse Investments Limited
- CCM Holdings LLC

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

No director, officer or control person has to the knowledge of the Company in the last five years been the subject of any of the actions or issues listed under items 1 through 4 above.

C. Beneficial Shareholders.

Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

At October 31, 2014 the following persons were recorded as beneficially owning more than ten percent (10%) of the issuer's common stock:

Shareholder	Number of Common Stock
<p>Greenhouse Investments Limited  1st floor, Liberation Station  The Esplanade  St Helier, Jersey JE2 3AS  British Channel Islands  Michael O’Leary Collins has voting and dispositive power over the shares held by this entity.  The Company has been advised that Core Fund Management LP has an option to acquire these shares subject to certain conditions (Option Shares).  Upon the exercise of the Option, Core Fund Management LP will own these shares and Steve Shum of Core Fund Management LP will have dispositive power over these shares. The address of Core Management Fund LP is 1500 SW 1st Ave, Suite 910, Portland, OR 97201.</p>	<p>16,773,648</p>
<p>CCM Holdings LLC  376 Main Street  PO Box 74  Bedminster,  NJ 07921  U.S.A.  The Company has been advised that Jack Galuchie has voting and dispositive power over the shares held by this entity.</p>	<p>27,412,897</p>

The numbers in the above table do not include 11,428,571 shares of common stock issuable in the event of conversion of Debentures at \$1.05 per share. It is unlikely that the Debentures will convert at \$1.05 given the current trading price of the Company’s common stock. 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 9: Subsequent Event

### First Quarter Results

As discussed above, with the price of oil per barrel falling, oil and gas majors are substantially reducing their capital and operational expenditures budgets. Historically our products are sold into offshore projects when the price per barrel is \$100 and above. With this low price of oil, many projects which we would typically sell or hire our products into have either been cancelled, rescheduled or postponed. We therefore believe that the revenues we generate from our Marine Technology Business in the current fiscal year will decline.

Our strategy in opening a sales and distribution office in Perth, Australia has helped in entrenching the technology within oil and gas operations in general and paving the way for significant sales and lease of the equipment but the management remains vigilant.

## **Item 10: Third Party Providers**

### **Promoter:**

None

### **Counsel:**

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

### **Accountant or Auditor:**

The auditors of the consolidated group financial statements for the years ending October 31, 2014 and 2013 are:

Frazier & Deeter, LLC  
1230 Peach Street, N.E.  
Suite 1500  
Atlanta, GA 30309

## **Item 11: 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 18, 2015

/s/ Annmarie Gayle  
Group CEO



**Consolidated Financial Statements  
For the Years Ended October 31, 2014 and 2013  
and Independent Auditors' Report**

## Contents

<b>Independent Auditors' Report</b> .....	<b>47</b>
<b>Consolidated Balance Sheets</b> .....	<b>48</b>
<b>Consolidated Statements of Income and Comprehensive Income</b> .....	<b>50</b>
<b>Consolidated Statements of Changes in Stockholders' Equity</b> .....	<b>52</b>
<b>Consolidated Statements of Cash Flows</b> .....	<b>53</b>
<b>Notes to the Consolidated Financial Statements</b> .....	<b>55</b>

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Coda Octopus Group, Inc.  
Lakeland, Florida

We have audited the accompanying consolidated balance sheets of Coda Octopus Group, Inc. (the "Company") as of October 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years ended October 31, 2014 and 2013. These consolidated 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coda Octopus Group, Inc. as of October 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 17, 2015  
Tampa, Florida

FRAZIER & DEETER, LLC

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets**  
**October 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,292,427	\$ 8,248,269
Short Term Investments	3,031	12,750
Accounts Receivable	4,031,623	2,418,846
Inventory	4,060,352	3,091,955
Unbilled Receivables	1,228,771	520,838
Other current assets	220,323	470,411
Prepaid Expenses	<u>188,875</u>	<u>193,001</u>
Total Current Assets	15,025,402	14,956,070
<b>Fixed Assets</b>		
Property and Equipment, net	2,179,617	1,332,777
<b>Other Assets</b>		
Restricted Cash	17,918	18,109
Deferred Tax Asset	133,233	110,667
Goodwill and other intangibles, net	<u>3,835,530</u>	<u>3,688,971</u>
	<u>3,986,681</u>	<u>3,817,747</u>
<b>Total Assets</b>	<u>\$ 21,191,700</u>	<u>\$ 20,106,594</u>

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



**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets (Continued)**  
**October 31, 2014 and 2013**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable, trade	\$ 1,389,506	\$ 1,133,187
Accrued Expenses and other current liabilities	812,183	790,417
Short term loan payable	-	218,000
Short term loan payable - related party	238,842	-
Loans and note payable, current	466,259	724,122
Deferred revenues	530,581	488,366
Total Current Liabilities	3,437,371	3,354,092
<b>LONG-TERM LIABILITIES</b>		
Loans and note payable, long term	15,051,254	15,852,703
Total Liabilities	18,488,625	19,206,795
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of October 31, 2014 and October 31, 2013, respectively	6	6
Common stock, \$.001 par value; 150,000,000 shares authorized, 93,919,213 and 93,776,356 shares issued and outstanding as of October 31, 2014 and 2013, respectively	93,919	93,776
Additional paid-in capital	49,033,759	49,030,396
Accumulated other comprehensive loss	(101,169)	(274,536)
Accumulated deficit	(46,323,440)	(47,949,843)
Total Stockholders' Equity	2,703,075	899,799
Total Liabilities and Stockholders' Equity	\$ 21,191,700	\$ 20,106,594

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Income and Comprehensive Income**  
**For the Years Ended October 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Revenues from External Customers	\$ 16,446,271	\$ 22,343,540
Cost of Revenues	6,360,906	9,021,474
Gross Profit	10,085,365	13,322,066
<b>OPERATING EXPENSES</b>		
Research & Development	1,128,542	1,032,108
Selling, General & Administrative	5,821,468	5,329,870
Total Operating Expenses	6,950,010	6,361,978
<b>INCOME FROM OPERATIONS</b>	<b>3,135,355</b>	<b>6,960,088</b>
<b>OTHER INCOME (EXPENSE)</b>		
Other Income	6,326	41,878
Interest Expense	(1,574,704)	(1,591,607)
Gain on change in fair value of derivative liability	-	4,902
Unrealized (loss) gain on sale of investment in marketable securities	(9,719)	10,519
Total Other Income (Expense)	(1,578,097)	(1,534,308)
<b>NET INCOME BEFORE INCOME TAXES</b>	1,557,258	5,425,780
<b>INCOME TAX BENEFIT (EXPENSE)</b>	69,145	(110,293)
<b>NET INCOME</b>	<b>\$ 1,626,403</b>	<b>\$ 5,315,487</b>
<b>NET INCOME PER SHARE:</b>		
Basic	\$ 0.02	\$ 0.06
Diluted	\$ 0.02	\$ 0.06
<b>WEIGHTED AVERAGE SHARES:</b>		
Basic	93,815,495	92,399,171
Diluted	93,865,495	92,449,171

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Income and Comprehensive Income (Continued)**  
**For the Years Ended October 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
NET INCOME	\$ 1,626,403	\$ 5,315,487
Other Comprehensive Income:		
Foreign currency translation adjustment	173,367	492,435
Total Other Comprehensive Income	173,367	492,435
COMPREHENSIVE INCOME	\$ 1,799,770	\$ 5,807,922

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Years Ended October 31, 2014 and 2013**

	Preferred Stock Series A		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance, October 31, 2012	6,287	\$ 6	89,754,976	\$ 89,755	\$ 48,463,381	\$ (766,971)	\$ (53,265,330)	\$ (5,479,159)
Foreign currency translation adjustment	-	-	-	-	-	492,435	-	492,435
Stock issued for loan payment	-	-	4,021,380	4,021	567,015	-	-	571,036
Net Income	-	-	-	-	-	-	5,315,487	5,315,487
Balance, October 31, 2013	6,287	6	93,776,356	93,776	49,030,396	(274,536)	(47,949,843)	899,799
Stock issued in exchange of warrants	-	-	142,857	143	3,363	-	-	3,506
Foreign currency translation adjustment	-	-	-	-	-	173,367	-	173,367
Net Income	-	-	-	-	-	-	1,626,403	1,626,403
Balance, October 31, 2014	6,287	\$ 6	93,919,213	\$ 93,919	\$ 49,033,759	\$ (101,169)	\$ (46,323,440)	\$ 2,703,075

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended October 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 1,626,403	\$ 5,315,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	236,571	150,074
Change in fair value of warrant liability	-	(4,902)
Financing costs	944,195	774,286
Unrealized gain (loss) on investments	9,719	(10,519)
Increase (decrease) in operating assets:		
Accounts receivable	(1,612,779)	213,255
Inventory	(968,397)	(711,767)
Prepaid expenses	4,125	1,307,511
Unbilled receivables	(707,933)	174,113
Other assets	250,087	178,720
Deferred Tax Asset	(22,566)	(110,667)
Increase (decrease) in operating liabilities:		
Accounts payable and other current liabilities	516,925	(1,378,714)
Deferred revenues	42,216	(2,637,668)
	318,566	3,259,209
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(992,100)	(620,394)
Cash Subject to restriction	191	(18,109)
Purchases of intangible assets	(237,866)	(10,422)
	(1,229,775)	(648,925)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments made on loans and notes payable	(2,218,000)	(32,329)
	(2,218,000)	(32,329)

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Cash Flows (Continued)**  
**For the Years Ended October 31, 2014 and 2013**

EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH	<u>173,367</u>	<u>492,435</u>
NET (DECREASE) INCREASE IN CASH	(2,955,842)	3,070,390
CASH AT THE BEGINNING OF THE YEAR	<u>8,248,269</u>	<u>5,177,879</u>
CASH AT END OF YEAR	<u>\$ 5,292,427</u>	<u>\$ 8,248,269</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 837,936	\$ 817,321
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for debt	\$ -	\$ 571,036
Building purchase financed by a note payable	\$ -	\$ 530,701
Common stock issued for warrants	\$ 3,507	\$ -

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

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

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 following a reverse merger with The Panda Project in 2004. At that 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 engineering operations in the state of Utah, and the United Kingdom.

The consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements presented with these Notes.

**NOTE 2 - SUMMARY OF ACCOUNTING POLICIES**

a. Basis of Presentation

The Company has adopted the Financial Accounting Standards Board (FASB) Codification (Codification). The Codification is the single official source of authoritative accounting principles generally accepted in the United States of America (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities, and all of the Codification's content carries the same level of authority.

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, 2014 and 2013.

d. 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 for 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 their estimated useful lives which is typically three to four years.

e. Advertising

Coda 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, 2014 and 2013**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

f. Inventory

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

	October 31,	
	2014	2013
Raw materials and parts	\$ 2,223,325	\$ 1,226,969
Work in progress	181,965	178,461
Demo goods	728,582	1,004,032
Finished goods	926,480	682,493
Total Inventory	\$ 4,060,352	\$ 3,091,955

g. Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 including unbilled and deferred 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 evidence of a contractual arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

For arrangements with multiple deliverables, we recognize product revenue by allocating the revenue to each deliverable based on the fair value of each deliverable, and recognize revenue when equipment is delivered, and for installation and other services as they are performed.

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

For software license sales for which any services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery of the software, provided (1) there is evidence of a contractual arrangement for this, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

For arrangements that are generated from time and material contracts where there is a signed agreement and approved purchase order in place that specifies the fixed hourly rate and other reimbursable costs to be billed based on material and direct labor hours incurred. Revenue is recognized on these contracts based on material and direct labor hours incurred. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred (materials and direct labor hours) incurred to date to estimated total services (materials and direct labor hours) for each contract. This method is used as expended direct materials and labor hours are considered to be the best available measure of progress on these contracts. Losses on fixed-price contracts are recognized during the period in which the loss first becomes apparent based upon costs incurred to date and the estimated costs to complete as determined by experience from similar contracts. Variations from estimated contract performance could result in adjustments to operating results.



**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

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, since a significant part of the Company's sales are to a small number of companies and even though these are generally established businesses market fluctuations such as price of oil could affect our customers' ability to meet their obligations to us.

The Company's bank deposits are held with financial 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 sheets. These amounts are stated on the consolidated balance sheets as Unbilled Receivables of \$1,228,771 and \$520,838 as of October 31, 2014 and 2013, respectively.

Our Deferred Revenue of \$530,581 and \$488,366 as of October 31, 2014 and 2013, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations upon completing a sale – elaborated further in the last paragraph of the Note.

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 sheets. These amounts are stated on the balance sheets as a component of Deferred Revenue of \$125,426 and \$72,858 as of October 31, 2014 and 2013, 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 sheets as a component of Deferred Revenue of \$405,155 and \$415,508 as of October 31, 2014 and 2013, respectively.

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.

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.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

I. 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 limited lived 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. The fair value of the Company's long-term debt approximates its carrying amount based on the fact that the Company believes it could obtain similar terms and conditions for similar debt.

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 weighted 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 years ended October 31, 2014 and 2013.

p. Research and Development

Research and development costs consist of expenditures for the present and future patents and technology, which are not capitalizable. Under current legislation, we are eligible for UK and Norway tax credits related to our qualified research and development expenditures.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

p. Research and Development (Continued)

Tax credits are classified as a reduction of research and development expense. During the years ended October 31, 2014 and 2013, we recorded tax credits totaling \$0 and \$33,447, respectively.

q. Stock Based Compensation

We recognize the expense related to the fair value of stock-based compensation awards within the consolidated statements of income and comprehensive income. 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 for the years ended October 31, 2014 and 2013 and have included compensation expense (when applicable) for unvested stock-based compensation awards that were outstanding as of October 31, 2014 and 2013 for which the requisite service was rendered during the year.

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' equity.

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.

Following is a reconciliation of earnings from continuing operations and weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share:

Fiscal Year	2014	2013
Numerator:		
Net Income	<u>\$ 1,626,403</u>	<u>\$ 5,315,487</u>
Denominator:		
Basic weighted average common shares outstanding	93,815,495	92,399,171
Dilutive effect of stock options	<u>50,000</u>	<u>50,000</u>
Diluted outstanding shares	<u>93,865,495</u>	<u>92,449,171</u>
Earnings from continuing operations		
Basic	\$ 0.02	\$ 0.06
Diluted	\$ 0.02	\$ 0.06

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

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, 2014, the Company had:

Cash and cash equivalents	\$ 5,292,427
Working capital surplus	11,588,031
Total Stockholders' equity	2,703,075
Accumulated deficit	(46,323,440)
Net income for the year ended October 31, 2014	1,626,403
Positive cash flows from operations	318,566

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 (including approximately \$15 M under senior debentures due in August 2016), 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.

u. Restricted Cash

The Company is required to have a specific cash account to guarantee a lease in Norway whereby the lessor has access to withdraw on the account upon default on the lease. The amount required to be held in the account was \$17,918 and \$18,109 as of October 31, 2014 and 2013 respectively, and is shown as a long-term asset as the restricted cash balance is expected to be maintained through the life of the lease.

v. Reclassification

Certain reclassifications are made to the October 31, 2013 account classifications. These reclassifications do not have an effect on total assets, liabilities, stockholders' equity, income, comprehensive income and cash flows. The reclassifications are a more accurate presentation and conform to the October 31, 2014 classifications.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

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, 2014 and October 31, 2013 is as follows:

	2014	2013
Customer relationships (weighted average life of 10 years)	\$ 919,503	\$ 694,503
Non-compete agreements (weighted average life of 3 years)	198,911	198,911
Patents	130,028	117,161
Total identifiable intangible assets - gross carrying value	1,248,442	1,010,575
Less: accumulated amortization	(795,020)	(703,712)
Total intangible assets, net	\$ 453,422	\$ 306,863

Future estimated annual amortization expenses as of October 31, 2014 as follows:

Years Ending October 31,	Amount
2015	\$ 104,942
2016	104,942
2017	64,453
2018	31,777
Thereafter	147,308
Totals	\$ 453,422

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$91,308 and \$80,374 for the years ended October 31, 2014 and 2013, respectively. Goodwill is not being amortized.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL (Continued)

As a result of the acquisitions of Coda Octopus Martech, Ltd., Coda Octopus Colmek, Inc., Coda Octopus Products, Ltd., and Dragon Design, Ltd., the Company has goodwill in the amount of \$3,382,108 and \$3,382,108 as of October 31, 2014 and 2013. The carrying amount of goodwill as of the years ended October 31, 2014 and 2013 are recorded below:

	<u>2014</u>	<u>2013</u>
Breakout of Goodwill:		
Coda Octopus Colmek, Inc.	\$ 2,038,669	\$ 2,038,669
Coda Octopus Products, Ltd	62,315	62,315
Coda Octopus Martech, Ltd	998,591	998,591
Coda Octopus Martech, Ltd (from Dragon Design Ltd Acquisition)	<u>282,533</u>	<u>282,533</u>
Total Goodwill	<u>\$ 3,382,108</u>	<u>\$ 3,382,108</u>

Considerable management judgment is necessary to estimate fair value of goodwill. 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 2014 and management's opinion is that the carrying values are reasonable.

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

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Buildings	\$ 1,087,322	\$ 1,063,885
Office machinery and equipment	1,548,966	777,728
Furniture, fixtures and improvements	<u>456,108</u>	<u>258,680</u>
Totals	3,092,396	2,100,293
Less: accumulated depreciation	<u>(912,779)</u>	<u>(767,516)</u>
Property and Equipment - Net	<u>\$ 2,179,617</u>	<u>\$ 1,332,777</u>

Depreciation expense for the years ended October 31, 2014 and 2013 was \$145,263 and \$69,700, respectively.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 5 - OTHER CURRENT ASSETS

Other current assets consisted of the following at October 31, 2014 and 2013:

	2014	2013
Deposits	\$ 94,098	\$ 49,483
Other receivables	47,341	86,204
Value added tax (VAT) receivable	78,884	334,724
Total Other Current Assets	\$ 220,323	\$ 470,411

NOTE 6 – 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, 2013, the Company issued 4,021,380 shares of our common stock to CCM Holdings, LLC in satisfaction of debt amounting to \$571,036.

In July 24, 2014 the Company issued 142,857 shares of common stock to Core Fund LLP in respect of previous contractual commitments assumed in October 2010. Core Fund LLP surrendered its Warrants (in or around October 2010) in exchange for shares of Common Stock in connection with an offer which the Company made to the group of purchasers who between April and May 2007 purchased 15,000,000 shares of common stock and 7,500,000 Series A Warrants and 7,500,000 Series B Warrants. Although instructions were provided then to our Transfer Agents, these shares were never issued. The stock was issued at \$0.025 per share, which was the issue price at the time the warrants were surrendered.

The Company has issued and outstanding 93,919,213 and 93,776,356 shares of common stock as of October 31, 2014 and 2013, respectively.

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 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock are not designated.

Series A Preferred Stock

The Series A Preferred Stock currently in issue was sold in units of \$100 and £100 in or around October 2006. The Certificate of Designations, Preference and Rights of Preferred Stock stipulate a dividend at 12% per annum. The holders of Preferred stock in preference to holders of shares of our common stock are entitled to receive dividends but only “when, as and if” declared by the Board of Directors out of funds legally available for the purpose

As of October 31, 2014 and 2013, the Company has 6,287 shares of Series A Preferred Stock in issue. The Board of Directors have not declared any dividends on Series A Preferred Stock since September 2009 since it considers the current cash requirements of the business (including its obligations under the Secured Debentures and its operational requirements) precludes it from declaring such dividend. In the event that such amounts are declared they are cumulative from the date

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 6 – CAPITAL STOCK (Continued)

Series A Preferred Stock (Continued)

of issue of such Preferred Stock. 6,087 of the 6,287 shares of Series A Preferred Stock outstanding are now held by Barclay Place Capital Limited.

Although there are 6,287 shares of Series A Preferred Stock in issue, the current management have been unable to find the complete documentation on the Series A Preferred Stock including verification that the purchase price for these shares have been paid in full. We are currently in discussion with the holder on providing us complete documentation on the consideration provided to the Company for 4,507 shares of Series A Preferred Stock.

We have made no provision in our accounts for dividends for the Series A Preferred Stock since September 2009 as dividends can only be paid “as, when and if” declared by the Board from legally available funds.

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, 2014 and 2013 the Company has no shares of Series B Preferred Stock outstanding.

NOTE 7- LITIGATION

On or around January 6, 2014 a number of purchasers who subscribed for shares and warrants pursuant to a series of securities purchase agreement entered into between April and May 2007 (“Securities Agreement”) and to which the Company was a party have instituted legal proceedings against the Company and one of our Directors in the Supreme Court of the State of New York (“Claim”). In their Claim these purchasers allege, inter alia, breach of contract and negligent misrepresentation.

In summary, the Complainants allege that the Company issued securities which constituted Dilutive Issuances (as the term is defined in the Securities Agreement). These Complainants assert in their Claim that they are seeking from the Company (i) the issuance of 97,618,439 shares of common stock; and (ii) adjustment of the exercise price under each of the Complainant’s Warrants; and (iii) reinstatement of the Warrant and adjustment of the exercise price of the Warrants and number of shares issuable under the Warrants; and (iv) their costs and reasonable attorneys’ fees incurred; and (v) any other relief the Court deems just and proper.

The Company and Director intend to vigorously defend these claims.



**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 8 – STOCK OPTIONS

Transactions involving stock options are summarized as follows:

Stock Options

	October 31,			
	2014		2013	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding beginning of the year	50,000	\$ 1.05	235,000	\$ 1.25
Granted during the year	-		-	
Expired/cancelled during the year	-		(185,000)	\$ 1.30
Outstanding at end of year	50,000	\$ 1.05	50,000	\$ 1.05
Exercisable at end of year	50,000	\$ 1.05	50,000	\$ 1.05

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, 2014 and 2013. The Company also estimates that the unrecognized tax benefit will not change significantly within the next twelve months.

There are no material tax positions included in the accompanying consolidated financial statements at October 31, 2014 and 2013 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

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 9 - INCOME TAXES (Continued)

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 \$16,886,000 as of October 31, 2014, which expire beginning in 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 \$6,585,000 as of October 31, 2014. The Company has provided a valuation reserve against the full amount of the net operating loss benefit. For the year ended October 31, 2014 the Company had an Alternative Minimum Tax of \$27,036 due.

For income tax reporting purposes, the Company's aggregate UK and Norway unused net operating losses approximate \$1,377,706 with no expiration. The deferred tax asset related to the UK and Norway tax carry-forwards is approximately \$192,151. The Company has provided a valuation reserve against the portion 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 allowed for will not be fully realized. Those remaining and not allowed for are recorded by the Company and are expected to be used in the near future.

Components of deferred tax assets as of October 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Net operating loss carry-forward benefit	\$ 6,777,151	\$ 7,301,667
Valuation allowance	<u>(6,643,918)</u>	<u>(7,191,000)</u>
Net deferred tax asset	<u>\$ 133,233</u>	<u>\$ 110,667</u>

The company did receive tax refunds, net of any benefits for financial purposes in two of its foreign subsidiaries as of the year ended October 31, 2014 as follows:

	<u>2014</u>
Coda Octopus Products Ltd. - UK	\$ 51,325
Coda Octopus R&D Ltd - UK	<u>44,856</u>
Total income tax refunds	<u>\$ 96,181</u>

The Company did not incur any income tax expense for financial purposes in its U.S. entities and other foreign entities not included above as we have been able to use net operating loss carry-forwards and other timing differences during the current and prior year to offset any tax liabilities in the various tax jurisdictions. The use of these income tax benefits in the current and prior 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's income tax returns are subject to audit by taxing authorities for the years beginning November 1<sup>st</sup> 2011.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 9 - INCOME TAXES (Continued)

A reconciliation between the amount of income tax benefit determined by applying applicable U.S. statutory tax rate to pre-tax income is as follows:

	<u>2014</u>	<u>2013</u>
Federal statutory rate of 35%	\$ 470,448	\$ 1,493,117
Alternative Minimum Tax	27,036	-
Foreign tax expense (benefit)	(96,181)	110,293
Use of NOL losses on consolidated tax returns	<u>(470,448)</u>	<u>(1,493,117)</u>
Total income tax expense (benefit)	<u>\$ (69,145)</u>	<u>\$ 110,293</u>

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 10 - LOANS AND NOTES PAYABLE

Loans and notes payable consisted of the following at October 31, 2014 and 2013:

	2014	2013
On February 21, 2008 the Company issued a convertible senior secured debenture with a face value of \$12M ("Secured Debenture"). The Secured Debenture under their original terms matured on 21 February 2015. The Secured Debentures term has been extended under a Deed of Amendment dated August 18, 2014 and the revised maturity date is August 21, 2016. The Secured Debentures accrues interest of 8.5% annually payable within 60 days of the end of the Company's financial quarters. The Company redeemed 20 Debentures (each having a face value of \$100,000) on or around September 18, 2014. The revised face value of the Debentures currently is \$10M. 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 Over The Counter Bulletin Board 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.	\$ 14,611,738	\$ 15,885,072
The Company has a line of credit secured by the accounts receivable and inventory of a subsidiary. The line has a maturity date of May 1, 2015. Interest floats between 4% and Prime plus 0.75%, whichever is higher. At October 31, 2014 the rate was 4%	413,491	-
In fiscal 2014, the Company had a 7 year unsecured loan note for \$161,000 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 \$3.00. This has been satisfied in full in 2014.	-	161,052
The Company has a 10 year secured mortgage for \$527,675, secured by a building in the UK that requires monthly principal payments of \$4,397 along with interest at 2.75%, matures October 2023. The conversion rate varies according to exchange rates fluctuations	492,284	530,701
Total	\$ 15,517,513	\$ 16,576,825
Less: current portion	(466,259)	(724,122)
Total Long-Term Loans and Notes Payable	\$ 15,051,254	\$ 15,852,703

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 10 - LOANS AND NOTES PAYABLE (Continued)

A reconciliation of the convertible senior secured debenture is as follows:

	<u>2014</u>	<u>2013</u>
Bond Principal	\$ 10,000,000	\$ 12,000,000
Accrued Interest	1,191,816	965,150
Accrued Terminal Conversion Premium	<u>3,419,922</u>	<u>2,919,922</u>
Total Bond Payable	<u>\$ 14,611,738</u>	<u>\$ 15,885,072</u>

Principal maturities as of October 31, 2014 are as follows:

<u>Years Ending October 31,</u>	<u>Amount</u>
2015	\$ 466,259
2016	14,664,506
2017	52,768
2018	52,768
Thereafter	<u>281,212</u>
Totals	<u>\$ 15,517,513</u>

NOTE 11 - SHORT-TERM LOANS PAYABLE

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

	<u>2014</u>	<u>2013</u>
Loan payable to a debenture holder for \$496,000, requires a 20% interest payment. The due date of this obligation was March 2012. This has now been satisfied in full in 2014.	\$ -	\$ 132,000
Loan payable to a debenture holder for \$320,000, requires a 20% interest payment. The due date of this obligation was March 2012. This has now been satisfied in full in 2014.	<u>-</u>	<u>86,000</u>
Total short-term loans payable	<u>\$ -</u>	<u>\$ 218,000</u>

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

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 \$173,367 and \$492,435 for the years ended October 31, 2014 and 2013, respectively.

A reconciliation of the other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheets is as follows:

	2014	2013
Balance, beginning of year	\$ (274,536)	\$ (766,971)
Total other comprehensive income (loss) for the year - foreign currency translation adjustment	173,367	492,435
Balance, end of year	\$ (101,169)	\$ (274,536)

NOTE 13 - CONCENTRATIONS

Significant Customers

During the year ended October 31, 2014, the Company had one customer from whom it generated sales greater than 10% of net revenues. Revenues from this customer were \$4,544,890, or 27.6% of net revenues during the year. Total accounts receivable from this customer at October 31, 2014 was \$1,653,797 or 41% of accounts receivable.

During the year ended October 31, 2013, the Company had one customer generate sales greater than 10% of net revenues. Revenues from this customer were \$3,281,037, or 14.7% of net revenues during the year. Total accounts receivable from this customer at October 31, 2013 was \$229,958 (9.5% of accounts receivable).

Limited Suppliers

We are exposed to a concentration risk in our supply chain for our key product, the Echoscope. There is a limited pool of suppliers for some of our key components and other components are subject to obsolescence risks due to the age of the technology.

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. Employee benefit costs of the years ended October 31, 2014 and 2013 were \$48,821 and \$38,211, respectively.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

**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 February 28, 2017. The following schedule summarized the future minimum lease payments on the term operating leases:

Years Ending October 31,	Amount
2015	\$ 117,608
2016	52,435
2017	8,739
Totals	\$ 178,782

**NOTE 16 - RELATED PARTY TRANSACTIONS**

During the fiscal year, our CEO provided Coda Octopus Martech with a short term loan of £144,096 (the equivalent of \$238,842) as short term working capital. The loan accrues interest of 4.5% per annum. Subsequent to the financial year, Coda Octopus Martech repaid £77,066 which is the equivalent of, \$127,738 using the exchange rate at the balance sheet date and includes £691 in interest, which is equivalent of \$1,105 using the exchange rate at the balance sheet date.

**NOTE 17 - SEGMENT ANALYSIS**

Due to the nature of our businesses, we are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations. Coda Octopus Martech and Coda Octopus Colmek operate as contractors, and the balance of our operations are comprised of product sales.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate includes general corporate administrative costs.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies.

There are inter-segment sales which have been eliminated in our financial statements but are disclosed in the tables below for information purposes.

The following table summarizes segment asset and operating balances by reportable segment for the financial years ending October 31, 2014 and 2013 respectively.

The Company's reportable business segments operate in three geographic locations. Those geographic locations are:

- \* United States
- \* Europe
- \* Australia

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. There are inter-segment sales which have been removed upon consolidation and for the purposes of the information shown below.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the years ended October 31, 2014 and 2013 respectively:

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 17 - SEGMENT ANALYSIS (Continued)

	Marine Technology Business (Products)	Marine Engineering Business Colmek (Services)	Marine Engineering Business Martech (Services)	Corporate	Total
<b>Fiscal Year 2014</b>					
Revenues from External Customers	\$ 9,387,525	\$ 5,289,180	\$ 1,769,566	\$ -	\$ 16,446,271
Cost of Revenues	2,473,470	2,668,516	1,218,920	-	6,360,906
<b>Gross Profit</b>	6,914,055	2,620,664	550,646	-	10,085,365
Research & Development	1,128,542	-	-	-	1,128,542
Selling, General & Administrative	3,112,318	1,561,465	474,996	672,689	5,821,468
<b>Operating Income (Loss)</b>	2,673,195	1,059,199	75,650	(672,689)	3,135,355
<b>Other Income (Expense)</b>					
Other Income	5,388	-	938	-	6,326
Interest Expense	(542,842)	(260,243)	(254,358)	(517,261)	(1,574,704)
Unrealized loss on sale of investment in marketable securities	-	-	-	(9,719)	(9,719)
<b>Total other income (expense)</b>	(537,454)	(260,243)	(253,420)	(526,980)	(1,578,097)
Income (Loss) before income taxes	2,135,741	798,956	(177,770)	(1,199,669)	1,557,258
Income tax refund (expense)	92,937	(23,792)	-	-	69,145
<b>Net Income (Loss)</b>	<u>\$ 2,228,678</u>	<u>\$ 775,164</u>	<u>\$ (177,770)</u>	<u>\$ (1,199,669)</u>	<u>\$ 1,626,403</u>
<b>Supplemental Disclosures</b>					
Total Assets	\$ 11,336,875	\$ 6,863,067	\$ 2,882,346	\$ 109,412	\$ 21,191,700
Total Liabilities	2,061,140	1,105,630	494,999	14,826,856	18,488,625
Revenues from Intercompany Sales - eliminated from sales above	2,295,145	243,774	327,037	1,468,201	4,334,157
Depreciation and Amortization	115,196	103,864	4,470	13,041	236,571
Purchases of Long-lived Assets	629,941	345,719	3,573	12,867	992,100

NOTE 17 - SEGMENT ANALYSIS (Continued)



**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

	Marine Technology Business (Products)	Marine Engineering Business Colmek (Services)	Marine Engineering Business Martech (Services)	Corporate	Total
<b>Fiscal Year 2013</b>					
Revenues from External Customers	\$ 14,891,480	\$ 5,638,791	\$ 1,813,269	\$ -	\$ 22,343,540
Cost of Revenues	5,131,246	2,535,486	1,354,742	-	9,021,474
<b>Gross Profit</b>	9,760,234	3,103,305	458,527	-	13,322,066
Research & Development	1,032,108	-	-	-	1,032,108
Selling, General & Administrative	2,668,593	1,411,862	566,495	682,920	5,329,870
<b>Operating Income (Loss)</b>	6,059,533	1,691,443	(107,968)	(682,920)	6,960,088
<b>Other Income (Expense)</b>					
Other Income	41,442	-	436	-	41,878
Interest Expense	(552,329)	(260,755)	(254,823)	(523,700)	(1,591,607)
Unrealized gain on sale of investment in marketable securities	-	-	-	10,519	10,519
Gain (loss) on change in fair value of derivative liability	-	-	-	4,902	4,902
<b>Total other income (expense)</b>	(510,887)	(260,755)	(254,387)	(508,279)	(1,534,308)
Income (Loss) before income taxes	5,548,646	1,430,688	(362,355)	(1,191,199)	5,425,780
Income tax refund (expense)	(110,293)	-	-	-	(110,293)
<b>Net Income (Loss)</b>	<u>\$ 5,438,353</u>	<u>\$ 1,430,688</u>	<u>\$ (362,355)</u>	<u>\$ (1,191,199)</u>	<u>\$ 5,315,487</u>
<b>Supplemental Disclosures</b>					
Total Assets	\$ 12,659,823	\$ 4,414,350	\$ 2,746,809	\$ 285,612	\$ 20,106,594
Total Liabilities	1,712,149	185,457	780,955	16,528,234	19,206,795
Revenues from Intercompany Sales - eliminated from sales above	4,441,048	35,042	495,747	1,030,487	6,002,324
Depreciation and Amortization	51,326	73,794	12,777	12,177	150,074
Purchases of Long-lived Assets	580,925	20,123	9,464	10,422	620,934

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2014 and 2013**

NOTE 17 - SEGMENT ANALYSIS (Continued)

	Europe	USA	Australia	Total
External Revenues by Geographic Locations				
<b>Fiscal Year 2014</b>	\$8,709,751	\$7,517,882	\$ 218,638	\$ 16,446,271
<b>Fiscal Year 2013</b>	\$ 9,270,571	\$ 13,072,969	\$ -	\$ 22,343,540

NOTE 18 - SUBSEQUENT EVENTS

**Material Purchase**

A US subsidiary of the Company has entered into an agreement to purchase a building for \$1.2M in cash. The closing which is subject to satisfactory due diligence will be around March 2015.