



Coda Octopus Group, Inc.

Annual Report

November 1, 2012–October 31, 2013

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Symbol: CDOC

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

Fiscal Year: 10/31

January 29, 2014

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.

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

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

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

Item 3: Security Information.

Trading symbol: CDOC

Securities outstanding: Common stock; 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

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

(i) Period end date:	October 31, 2013	October 31, 2012	October 31, 2011
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	93,776,356	89,754,976	74,339,665
(iv) Freely tradable shares (public float);	36,047,482	35,787,482	30,808,764
(v) Total number of shareholders of record	293	293	300

Series A Preferred Stock

(i) Period end date:	October 31, 2013	October 31, 2012	October 31, 2011
(ii) Number of shares authorized;	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding;	6,287	6,287	6,287
(iv) Freely tradable shares (public float);	-0-	-0-	-0-
(v) Total number of beneficial shareholders	5	5	5
(vi) Total number of shareholders of record	5	5	5

As of January 29, 2013, the Company had issued and outstanding 93,776,356 shares of common stock and 6,287 shares of Series A preferred stock.

Item 4: Issuance History

On February 21, 2012, the Company issued 100,000 shares to one of its directors as compensation for director services performed.

On July 26, 2012, the Company issued 15,315,316 shares to Solidor Investments Limited in consideration for the restructuring of the obligations under the Senior Debentures (postponing coupon and forgiving default interest obligations) and in exchange for the settlement of outstanding interest on the Debentures of \$1,020,000.

On March 5 2013, the Company issued 4,021,280 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 Debenture Holder had made available as working capital to the business in March 2011) and in consideration for postponing part of the coupon to maturity.

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, 2013 are included in this Annual Report at pages 42 through to 69. The audited financial statements for this period which is contained herein comprise:

1.	Condensed consolidated statements of operations and comprehensive income (loss) for the twelve months ended October 31, 2013 (Audited) and 2012 (Audited)
2.	Condensed consolidated balance sheet as of October 31, 2013 (Audited) and October 31, 2012 (Audited)
3.	Condensed consolidated statement of stockholders' equity for the twelve months ended October 31, 2013 (Audited) and 2012 (Audited)
4.	Condensed consolidated statements of cash flow for the twelve months ended October 31, 2013 (Audited) and 2012 (Audited)
5.	Notes to consolidated financial statements for the twelve months ended October 31, 2013 (Audited) and 2012 (Audited)

The audited consolidated financial statements include the accounts of Coda Octopus Group, Inc., and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All

significant intercompany transactions and balances have been eliminated in the consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the 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

Background

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

A new senior management and board were put in place in September 2009 to address these losses, and other historical problems of the Group and to ensure its continuity as a going concern. Since September 2009 the focus and strategy of the new management has been to restructure the Group by:

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

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

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

<u>Fiscal year – November 1 – October 31</u>	<u>SG&A</u>	<u>Revenues</u>	<u>SG&A / Revenues</u>
2007/08(Audited) – Full Fiscal Year	\$13.2m	\$17.0m	78%
2008/09 (Audited) – Full Fiscal Year	\$11.22m	\$13.2m	85%
2009/10 (Unaudited) – Full Fiscal Year	\$7.7m	\$11.5m	67%
2010/11 (Audited) – Full Fiscal Year	\$5.3m	\$15.7m	34%
2011/12 (Audited) – Full Fiscal Year	\$4.9m	\$21.1m	23%
2012/13 (Audited) – Full Fiscal Year	\$5.3m	\$22.3m	24%

At October 31, 2009, the Group had accumulated payables and accrued expenses and other current liabilities of \$7,016,203. This was made up of \$4,626,164 of accrued expenses and other current liabilities, which included provision for settlement of a number of disputes and other matters, and \$2,390,039 of payables. This figure was a threat to the Group's continued existence and required us, over the restructuring period to, among other things, reschedule some of the Group's liabilities with its creditors, particularly in Coda Octopus Martech and to use most of the income generated in the course of business to satisfy these.

Since October 2009 we have managed to reduce the \$4,626,164 of accrued expenses and other current liabilities to \$790,417 as of October 31, 2013, a reduction of 83%, whilst the Payables have also been reduced to \$1,133,186.

As of October 31, 2013 the remaining items within our accrued expenses and other current liabilities comprises ordinary and current items such as sales pre-payments and provision for taxes and other matters.

A key achievement of our restructuring has been to reschedule in October 2010 certain liabilities of our wholly owned subsidiary Coda Octopus Martech Limited ("Martech"). In this connection, \$945,000 has been rescheduled to be repaid over four years. This amount has now been reduced to approximately \$200,000. Martech pays approximately \$200,000 per year. As of the date of this document, Martech is current under this arrangement, and will need to keep current to avoid adverse consequences. We anticipate Martech to complete its obligations under this arrangement by November 2014.

Since February 21, 2008 our Balance Sheet also includes a \$12 million convertible secured debt ("Debentures"). In addition to this amount, the Debentures provide for a redemption premium of 30%. A primary focus of our restructuring has been to rehabilitate our income statement in such a way as to reach a level where the annual coupon obligations associated with these Debentures are serviceable. Current revenues and costs levels of the Group are in keeping with the obligations of servicing the Debentures. The failure to maintain our SG&A costs at under \$6 million per annum and achieve revenues in excess of \$17m per annum would threaten our ability to sustain our profitability going forward.

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

management. We have also increased our efforts to maximize the engineering capabilities of our Group to take our flagship real time 3D Product family forward. In this connection, the Marine Technology Business has invested in a Manufacturing and Consolidation Plant in Portland, Dorset, England. This facility will be co-located with Martech operations thus enabling Martech to assist in the onward development of our core technology. The Marine Technology Business has leased these premises to Martech which will be providing more services to the Marine Technology Business.

Comparison of audited full year ended October 31, 2013, with full year ended October 31, 2012 (audited).

Background

- 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 Products 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 and to finance its operations (including servicing the existing Senior 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. There are no material commitments in the Group for significant capital expenditures. However, the Senior Debentures mature on February 21, 2015.
- iv. The Marine Technology Business is seeing a change in the trends vis-à-vis its flagship products and more customers are electing to rent (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 rental 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.

Revenues for the full year ended October 31, 2013 compared to full year ended October 31, 2012

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
\$22,343,540	\$21,126,058	Increase of 5.8% (“Increase”)

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

- an increase in market interest in our real time 3D sonar product range, including the Echoscope®; and
- Increased business in our Coda Octopus Colmek, Inc. which forms part of our Marine Engineering Businesses.

Gross Margins for the full year ended October 31, 2013 compared to full year ended October 31, 2012

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
59.6% (gross profit of \$13,322,066)	55.6% (gross profit of \$11,753,870)	Increase of 4% ("Increase") Increase of 13.3% ("Increase")

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

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

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
\$1,032,108	\$1,332,143	Reduction of 22.5% ("Reduction")

This Reduction in our Research and Development spending should be compared with a Reduction of 0.6% and 24% in the financial year ending October 31, 2012 and 2011, respectively that were consistent with our cost reduction program in the period. No further reductions are predicted and this current level of spending still allows us to devote considerable R&D resources to bring forward the product variants of our core technology that we plan to introduce to the market over the next several months. With our strategy of fast onward development of our key technology committed in this and the next 3 years, we would expect to see a material increase in our R&D expenditures.

Selling, General and Administrative Expenses (SG&A) for the full year ended October 31, 2013 compared to full year ended October 31, 2012

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
\$5,329,870	\$4,867,139	Increase of 9.5% ("Increase")

The Increase in our SG&A is attributable mainly to the investments we have made in sales and marketing and certain relocation costs along with change in the structure of key personnel compensation package.

Key Areas of SG&A and R&D Expenditure across the Group for the full year ended October 31, 2013 (Audited) compared to the full year ended October 31, 2012 (Audited)

Expenditure	October 31, 2013	October 31, 2012	Percentage Change
Wages and Salaries	\$3,916,623	\$3,824,433	Increase of 2.4%
Legal and Professional Fees (including accounting, audit and investment banking services)	\$605,276	\$462,788	Increase of 30.8%
Travel Costs	\$83,441	\$112,623	Reduction of 25.9%
Rent for our various locations	\$354,509	\$392,865	Reduction of 9.8%
Marketing	\$190,091	\$227,004	Reduction of 16.3%

The 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 will incur significant relocation costs for key personnel. These figures are therefore likely to increase in the fiscal year 2013-14.

Operating Income for the full year ended October 31, 2013 compared to full year ended October 31, 2012.

Year Ended October 31, 2013 Audited	Year Ended October 31, 2012 Audited	Percentage Change
\$6,960,088	\$5,554,589	Increase of 25.3%

The increase in operating income compared to previous years is attributable to (i) the restructuring of the business which resulted in reduced SG&A allowing us to improve our gross margins and (ii) an increase in sales of our real-time 3D sonar product, the Echoscope®.

Other Income for the full year ended October 31, 2013 compared to full year ended October 31 2012.

Year Ended October 31, 2013 Audited	Year Ended October 31, 2012 Audited	Percentage Change
\$41,878	\$1,194,555	Reduction of 96.5%

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. Our expectation is that Other Income will be less than \$100,000 per annum going forward.

If the Company is to remain profitable, we will need to achieve revenues from our operations in excess of \$17m. We will also need to maintain our SG&A expenditures at no higher than the \$6m level.

Interest Expense for the full year ended October 31, 2013 compared to full year ended October 31, 2012

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
\$1,591,607	\$1,881,659	Reduction of 15.4%

In both years we have included amortization of the 30% redemption premium for our convertible debenture. This reduction is due to the Group now having no short term borrowings and associated interest payment that we had in previous years.

Net Income for the full year ended October 31, 2013 compared to full year ended October 31, 2012

Year Ended October 31, 2013	Year Ended October 31, 2012	Percentage Change
Audited	Audited	
\$5,315,487	\$4,924,329	Increase of 7.9%

This change is attributable to our focused restructuring program under which costs reduction in combination with our sales strategy for our real time 3D sonar, the Echoscope® were essential pillars.

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 15 below.

Our Group comprises the sub-sea Marine Technology Businesses which are conducted through our two wholly owned subsidiaries, Coda Octopus Products Limited (United Kingdom) and Coda Octopus Products, Inc. (USA.) and subsequent to the year end, Coda Octopus Products Pty Ltd.

Our most important product, The Echoscope®, generates high resolution real time images of the underwater environment and gives particular benefits in turbid/zero visibility environments. The Echoscope® gives the user reliable underwater intelligence in real time. We are unaware of any other sonar devices which 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 unparalleled real time images of subsea environments. We further believe that we can maintain this lead as a consequence of the significant research and development resources we have invested, and continue to invest in this field. We also believe that the Echoscope® technology has significant potential to displace conventional 2D sonar tools and multi-beam sonar devices in a number of core applications.

The Group also comprises the Marine 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 has been in the Customer Acceptance Phase of a prototype decontamination unit which is expected to form part of the ground equipment for a major international military aircraft program. The value of the contract under the Prototype development phase of the project was \$640,000. As part of Customer Acceptance, Martech has delivered the prototype decontamination unit to the customer who is subjecting this to its own verification testing. This has now been

accepted and forms part of the recommended ground equipment for this aircraft. We now would expect that the customer will adopt this as a piece of standard ground equipment for the aircraft in question and Martech will be the incumbent for the production of this product.

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

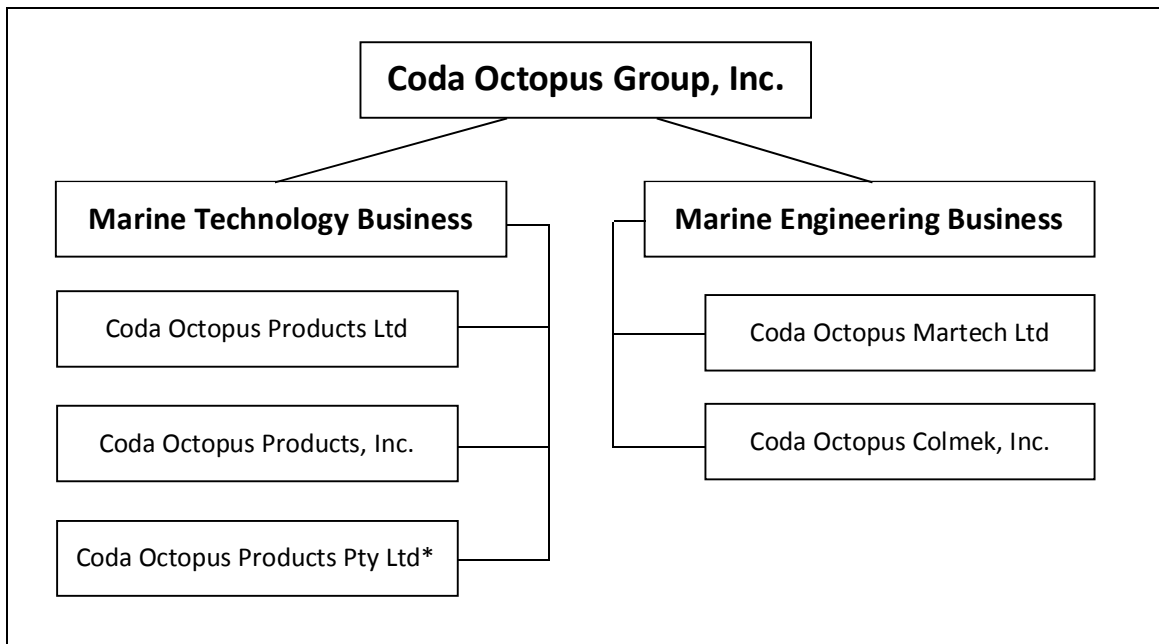
- Martech is LRQ accredited ISO9001:2008 and TickIT Guide Issue 5.5.
- Colmek is ISO9001:2008 compliant.

Martech has moved to new facilities owed 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:



*¹) This company was formed in December 2013 subsequent to financial year to which this Annual Report pertains.

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.

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

See Section 5 below of this item of the report for more on the Group (and its recent history).

3. Marine Technology Business

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

- Commercial Marine Geophysical Survey (including Oil and Gas); and
- Underwater Defense, Security, 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 which gives us a significant advantage over our sonar competitors in a number of applications such as port security, underwater construction and oil and gas markets. This comprises our range of products based on our patented Echoscope® which we believe are revolutionizing the sonar market, particularly in real time data acquisition, visualization and post-acquisition processing of subsea images and positioning. This patented technology is the result of more than twenty years of research and development by our subsidiary, Coda Octopus R&D AS, Norway, which we acquired in 2002.

Since the acquisition of this company we have significantly advanced our research and development in respect of this technology in both hardware and software terms, filed further patents and brought to the market the second generation of the Echoscope® and the Underwater Inspection System (UIS™). The UIS™ integrates the Echoscope® with, amongst other elements, our positioning device, the Octopus F180® to make a real time underwater inspection and surveillance device. 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® range, both on the hardware and software elements.

A series of trials conducted in 2011 by independent experts have validated our longstanding position that the Echoscope® performance exceeds that of the current standard industry tools (such as the multi-beam sonar) in a number of key applications and provides unparalleled image resolution and beam density. We believe that these capabilities combined with our unique real time visualization advantage, place the Echoscope® in a position to become the sonar of choice for many applications in the future.

Moreover, many users in complex situations such as underwater construction are reporting significant time savings, and health and safety benefits, which allow them to out-perform their competitors. 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 adopters 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 very wide range of applications including:

- inspection of harbor walls;
- inspection of ship hulls;
- inspection of bridge pilings;
- inspection of offshore installations such as gas and oil rigs and wind turbines;
- Remotely Operated Vehicle (ROV) navigation (obstacle avoidance);
- Autonomous Underwater Vehicle (AUV) navigation and target recognition (obstacle avoidance);
- construction - pipeline touchdown placement and inspection;
- obstacle avoidance navigation;
- bathymetry (measurement of water depth to create 3D terrain models);
- managing underwater construction tasks;
- underwater intruder detection;
- dredging and rock dumping;
- contraband detection;
- locating and identifying objects undersea, including mines;
- detection and study of individual species in real time 3D (fish, whales etc.);
- oil and gas leak detection;
- fish school detection and analysis;
- diver tracking and guidance;
- underwater archaeological and 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 software rendering patents provides for a new method of using multiple sonar images to produce in real-time 3D a super-detailed image with sharply defined edges whilst intelligently discarding “noise” in the image produced by (for example) passing fish or floating debris.

We market the Echoscope® both as a stand-alone sonar device and as a fully integrated system, 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:

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

Patent Number	Description
US Patent No. 8,059,486	Concerns a method of rendering volume representation of sonar images.

Trademarks

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

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 including Coda Octopus Colmek developing our Ruggedized Echoscope® which is a key product for the underwater construction markets and Martech developing our 3D pan and tilt unit which is a key application for the Echoscope®. Both these products will be brought to the market in 2014.

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 3D sonar markets underpinned by cutting edge proprietary software. We believe we are the first to bring to the market a sonar device with the capabilities of our patented Echoscope® technology. Our research and development

efforts from which this product derives have extended over two decades and we believe we have a real advantage in the knowledge and skills that we have in this field.

- We believe the barriers to entry into the 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.
- Our technology has been validated by well-respected bodies and customers as a tool which has important capabilities in port and harbor security, underwater construction and oil and gas. The United States Coast Guard has a number of our Underwater Inspection Systems UIS™ (which are powered by our Echoscope® and our other proprietary product, the Octopus F180®).
- We are the 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 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 and with this new technology in the market many underwater construction companies are revising their methodologies for making breakwaters or placing objects (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 which was formed in 1994 as a start-up company with its origins as a research group at Heriot-Watt University, Edinburgh, Scotland. Our operations consisted primarily of developing software for subsea mapping and visualization using sidescan sonar, a technology widely used in commercial offshore geophysical survey and naval mine-hunting to detect objects on, and textures of, the surface of the seabed.

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

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

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

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

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

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

In April 2007, we acquired a Utah-based engineering firm, Colmek Systems Engineering (now Coda Octopus Colmek, Inc.), which is a custom engineering service provider of subsea and other engineering solutions, particularly in the fields of data acquisition, storage and display. This company has particular links into the US defense industry, both directly and through its links with prime and second level defense contractors.

During April and May 2007, we entered into a series of securities purchase agreements with a group of accredited individuals and institutional investors ("Subscribers") providing for the issuance of 15,000,000 shares of our common stock and five year warrants to purchase 7,500,000 shares of common stock at \$1.30 and 7,500,000 shares of common stock at \$1.70. These securities purchase agreements and warrants contained certain price protection and anti-dilution provisions ("Agreements"). Between October and December 2010 in exchange for the termination of the Agreements the Company issued 21,857,143 shares of common stock to 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. See Item 9 (Subsequent Events) of this Report.

On 21 February, 2008, we borrowed \$12 million 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 maturity date for the Debentures is February 21, 2015. The Company and the Debenture holder entered into a Deed of Amendment ("Amendment") on April 30, 2012. Under the Amendment (i) a part of the annual interest is postponed to Redemption or Maturity (whichever occurs earlier) and (ii) subject to annual closing cash in the Group, this amount may be revised up.

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 real time 3D projects which have failed. Over the last several years there have been lower grade sonars entering the market of 3D imaging. Companies such as Triton 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. The size of these companies means that there is significant competition provided by other small engineering contracting firms, but the largest competition comes from the potential decisions by larger companies to proceed with a project in-house instead of outsourcing to a sub-contractor like Martech or Colmek. In essence, the potential of each company is determined by their ability to be known and trusted by potential clients, and the make in-house or buy from outside decisions made by those potential clients.

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 borrowed \$12 million 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 Debentures mature on February 21, 2015. 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 when due. 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 stock that may result in significant dilution of our existing shareholders. Renegotiation of the terms of the Debentures will likely be difficult by the current litigation reported in Item 9 (Subsequent Events) of this Report.

If we are unable to obtain additional funding, we may be unable to take advantage of the key patented technology or may have to reduce our business operations.

Because of a lack of financial resources we have been unable to fully capitalize on the potentially game changing patented Echoscope® technology including bringing to the market a suitably priced 3D sonar product for the traditional 2D sonar users, thus making a large part of the 2D sonar requirements redundant.

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.

The inability to obtain additional capital may reduce our ability to continue to conduct business operations. Any additional equity financing may involve substantial dilution to our existing stockholders.

Our ability to raise additional capital for our operations will depend upon many factors, including:

- (i) Continued scientific progress in our Research and Development programs;
- (ii) Competing technological and market developments;
- (iii) Our ability to establish additional collaborative relationships;
- (iv) The effect of commercialization activities and facility expansions if and as required;
- (v) Our ability to renegotiate the terms of the existing secured loan agreement under which we owe \$12million plus redemption premium and which matures in February 2015 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 the management to focus on the core drivers for growth.

The underwater visualization markets are highly competitive and we expect that competition will increase in these markets.

Our ability to compete successfully in our markets depends on a number of factors, including:

- success in designing and manufacturing of new products that implement new technologies;
- product quality, reliability and performance;
- customer support;
- ready availability of electronic components;
- price; and

- market acceptance of our products against our competitors' products.

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

Our operating results may fluctuate because of a number of factors, many of which are beyond our control.

Some of the factors that affect our results, but which are difficult to control or predict, are:

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

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.

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 two distinct brands, “Coda” and “Octopus”, each with specific brand values and niche appeal. Coda branded products are generally feature-rich, sophisticated, professional, productivity enhancing, top-end products and, as such, the Coda brand is applied to the GeoSurvey™, Echoscope®, UIS® and Dimension®, Underwater Survey Explorer software and Vantage product lines. The Octopus brand applies to simple-to-use, rugged, “work-horse” products

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

Data acquisition and interpretation systems

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, Coda 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.

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

This product range 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 **Octopus F180**[®] and newly introduced **Octopus 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 which 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 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 beam forming 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, this is 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 ovens which will become ground equipment for a major international military aircraft program. The Customer Acceptance Phase of this potentially significant project has now been successfully completed and this now forms part of the recommended ground equipment for this aircraft. We are optimistic that we will secure the work for the production of these and that this will become a significant revenue stream for Martech over the coming years.

Martech competes with larger contractors in the defense industry. Typical amongst these are Ultra Electronics, BAE Systems, and Thales, all of whom are also partners on various projects. Martech is

like many smaller companies a competitor to its customers, who have in-house design facilities, and has to manage these relationships carefully.

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

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

As part of the Group's new management strategy to rehabilitate the Group, Martech entered into a restructuring program in October 2010 under which certain of its liabilities were consensually rescheduled over a long term period. This arrangement is expected to be completed in 2014.

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.

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 expires on September 30, 2014.

Edinburgh, Scotland, United Kingdom. Our wholly owned United Kingdom subsidiary, Coda Octopus Products Ltd, leases business premises comprising 4,099 square feet and located at 2nd Floor, Anderson House, 1 Breadalbane Street, Edinburgh, EH6 5JR, United Kingdom. These premises are

used as offices. The building is located close to the Port of Leith and the Firth of Forth, which is convenient for conducting trials and demonstrations of our products. The lease provides for an annual rental for:

- September 2013 – September 2014 the equivalent of \$78,228

This lease expires on September 26, 2016. The rent is stated in British Pounds and is therefore subject to exchange rate fluctuations. Pursuant to the provisions of the lease, subject to giving 9 months' notice we have given such notice of terminating of the lease without penalty with effect from September 27, 2014. Coda Octopus Products Limited has also acquired, during the financial year, a Manufacturing and Consolidation Plant (Portland, Dorset, England). This Plant is intended to be 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. These premises have been sub-leased to Coda Octopus Martech.

This subsidiary also leases testing facility at 8 Corunna Place, Edinburgh EH6 5JG on a 3 month rolling lease agreement. The annual rent for this facility is \$11,500.

Portland, Dorset, England, UK. Our wholly owned subsidiary, Coda Octopus Martech Limited, long term lease expired in 2013. Martech has now relocated to new premises, which it leases from Coda Octopus Products Limited. These premises are located in the Marine Center, at 17 Mereside, Portland, Dorset DT5 1PY and comprise 9,890 square feet. 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 are owned by Coda Octopus Products Limited. These premises will allow 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 (the rent is stated in Norwegian Kroners and is therefore subject to exchange rate fluctuations) per annum and expires on May 31, 2015.

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

Item 8: Officers, Directors, and Control Persons as of October 31, 2013

A. Officers and Directors:

- Michael Hamilton, Director and Chairman of the Board
- Robert Ethrington, Director
- Annmarie Gayle, LL.B, LLM, 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.

Appointment of Director

On April 1, 2013, the Board of Directors of Coda Octopus Group Inc. (the “Company”) appointed Mr. Bob Ethrington, BA, MBA, to fill one of the existing vacancies on the Board of Directors.

Mr. Ethrington is a strategic and financial expert with forty years’ experience in the fields of corporate restructuring in both the private and public sectors. Mr. Ethrington obtained a Bachelors’ of Arts Degree from Leeds University and an MBA from Cranfield University.

From 1966 to 1981 Mr. Ethrington worked for two diversified industrial groups, Courtaulds and TI, in profit center management, planning and performance improvement positions. From 1981 to 1990 he worked as Director and head of Strategic Services Group at Coopers & Lybrand UK. In 1990 he became a founding partner of an advisory firm specializing in competitive strategy and corporate restructuring services that operates in both developed world countries and in developing countries of Asia and Africa and economies of the former Soviet Union.

In the private sector he has had extensive strategy and restructuring experience working directly for companies and also working for banks and financial institutions advising on the resolution of their risk and defaulting debt portfolios.

Mr. Ethrington is the owner of an essential oils business that started twelve years ago. The company has 250 hectares under cultivation in the Republic of Moldova and dedicated processing facilities. The main product is lavender oil and the business is among the largest supplier of this product to Western Europe.

Control persons as of January 29, 2014:

- 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, 2013 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.</p> <p>The Company has been advised that Core Fund Management LP has an option to acquire 67.5% of these shares subject to certain conditions (Option Shares).</p> <p>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>24,849,850 / (26.5%)</p>

Shareholder	Number of Common Stock / (%)
CCM Holdings LLC 376 Main Street PO Box 74 Bedminster, NJ 07921 U.S.A. Jack Galuchie has voting and dispositive power over the shares held by this entity.	19,336,696 / (20.6%)

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

Item 9: Subsequent Event

A. 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, Geoff Turner, 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.

The Company and Geoff Turner intend to vigorously defend these claims.

B. First Quarter Results

As discussed above, the Company has experienced a new trend in the market. In particular, customers prefer renting our equipment rather than purchasing it. This trend is particularly true for the oil and gas sector where historically it has been more typical to rent equipment for operations, rather than to purchase. Renting is often perceived as an opportunity to reduce capital expenses. In addition, customers use the rental period to evaluate the technology prior to wholesale adoption within their suite of equipment.

In addition, we are experiencing competition from some of our customers who offer the equipment for rental as part of their services. As a result of these trends, we have seen a reduction in our sales in the first Quarter. We would, therefore, expect that our results for the first Quarter of this financial year will show a significant decline compared to the same period ending in January 2013. Nevertheless, we believe that usage of the equipment is growing and is being seen in the oil and gas sector and underwater construction as tool of choice for their operations.

We would also expect that our strategy in opening a sales and distribution office in Perth, Australia will help in entrenching the technology within oil and gas operations in general and paving the way for significant sales of the equipment.

Item 10: Third Party Providers

Promoter:

None

Counsel:

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

Accountant or Auditor:

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

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

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: January 29, 2014

/s/ Annmarie Gayle
Group CEO



Coda Octopus Group, Inc.

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Consolidated Financial Statements
for the Years Ended October 31, 2013 and 2012
and Independent Auditors' Report

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Stayner Bates & Jensen P.C.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Coda Octopus Group, Inc. (the Company), which comprise the consolidated balance sheets as of October 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coda Octopus Group, Inc. as of October 31, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stayner, Bates & Jensen, PC
Salt Lake City, Utah
January 27, 2014

CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets
October 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 8,248,269	\$ 5,177,879
Short-term investments	12,750	2,231
Accounts receivable, net (Note 2)	2,418,846	2,632,101
Inventory (Note 2)	3,091,955	2,380,188
Unbilled receivables (Note 2)	520,838	694,951
Other current assets (Note 5)	470,411	649,131
Prepaid expenses	193,001	1,500,512
	<u>14,956,070</u>	<u>13,036,993</u>
PROPERTY AND EQUIPMENT, Net (Notes 2 & 4)	<u>1,332,777</u>	<u>251,382</u>
OTHER ASSETS		
Restricted Cash (Note 2)	18,109	-
Deferred tax asset (Note 9)	110,667	-
Intangible assets, net (Note 3)	306,863	376,815
Goodwill (Note 3)	3,382,108	3,382,108
	<u>3,817,747</u>	<u>3,758,923</u>
TOTAL ASSETS	<u><u>\$ 20,106,594</u></u>	<u><u>\$ 17,047,298</u></u>

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

CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets (Continued)
October 31, 2013 and 2012

LIABILITIES AND STOCKHOLDERS' DEFICIT

	2013	2012
CURRENT LIABILITIES		
Accounts payable	\$ 1,133,187	\$ 1,825,768
Accrued expenses and other current liabilities	790,417	1,476,550
Short-term loans payable - debenture holder (Note 11)	218,000	821,365
Loans and notes payable, current portion (Note 10)	724,122	250,000
Warrant liability (Note 6)	-	4,902
Deferred revenues (Note 2)	488,366	3,126,034
	3,354,092	7,504,619
LONG-TERM LIABILITIES		
Loans and notes payable (Note 10)	15,852,703	15,021,838
	15,852,703	15,021,838
Total Liabilities	19,206,795	22,526,457
STOCKHOLDERS' EQUITY		
Preferred stock - Series A, \$0.001 par value; 5,000,000 shares authorized, 6,287 shares issued and outstanding	6	6
Common stock, \$0.001 par value; 150,000,000 shares authorized, 93,776,356 shares issued and outstanding	93,776	89,755
Additional paid-in capital	49,030,396	48,463,381
Accumulated other comprehensive loss (Note 12)	(274,536)	(766,971)
Accumulated deficit	(47,949,843)	(53,265,330)
	899,799	(5,479,159)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 20,106,594	\$ 17,047,298

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, 2013 and 2012

	2013	2012
Net Revenues	\$ 22,343,540	\$ 21,126,058
Cost of Revenues	9,021,474	9,372,188
Gross Margin	13,322,066	11,753,870
OPERATING EXPENSES		
Research and development	1,032,108	1,332,143
Selling, general and administrative expenses	5,329,870	4,867,139
Total Operating Expenses	6,361,978	6,199,282
INCOME FROM OPERATIONS	6,960,088	5,554,588
OTHER INCOME (EXPENSE)		
Interest expense	(1,591,607)	(1,881,659)
Other income	41,878	1,194,555
Unrealized gain on investments	10,519	-
Gain on change in fair value of warrant liability (Note 6)	4,902	14,592
Total Other Income (Expense)	(1,534,308)	(672,512)
NET INCOME BEFORE INCOME TAXES	5,425,780	4,882,076
INCOME TAX (EXPENSE) REFUND (Notes 2 & 9)	(110,293)	42,252
NET INCOME	\$ 5,315,487	\$ 4,924,328
NET INCOME PER SHARE:		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06
WEIGHTED AVERAGE SHARES:		
Basic	92,399,171	78,467,765
Diluted	92,449,171	79,302,765

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, 2013 and 2012

	2013	2012
NET INCOME	\$ 5,315,487	\$ 4,924,328
Other Comprehensive Income:		
Foreign currency translation adjustment (Note 12)	492,435	219,017
Total Other Comprehensive Income	492,435	219,017
COMPREHENSIVE INCOME	\$ 5,807,922	\$ 5,143,345

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, 2013 and 2012

	Preferred Stock - Series A		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit
	Shares	Amount	Shares	Amount			
Balance, October 31, 2011	6,287	\$ 6	74,339,665	\$ 74,339	\$ 47,436,163	\$ (985,988)	\$ (58,189,658)
Shares issued as compensation	-	-	100,000	100	110	-	-
Correction of prior year stock buy back	-	-	(5)	-	2,800	-	-
Stock issued for debt interest	-	-	15,315,316	15,316	1,004,685	-	-
Fair value of options issued as compensation	-	-	-	-	19,623	-	-
Foreign currency translation	-	-	-	-	-	219,017	-
Net income for the year ended October 31, 2012	-	-	-	-	-	-	4,924,328
Balance, October 31, 2012	6,287	6	89,754,976	89,755	48,463,381	(766,971)	(53,265,330)
Stock issued for debt	-	-	4,021,380	4,021	567,015	-	-
Foreign currency translation	-	-	-	-	-	492,435	-
Net income for the year ended October 31, 2013	-	-	-	-	-	-	5,315,487
Balance, October 31, 2013	<u>6,287</u>	<u>\$ 6</u>	<u>93,776,356</u>	<u>\$ 93,776</u>	<u>\$ 49,030,396</u>	<u>\$ (274,536)</u>	<u>\$ (47,949,843)</u>

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,315,487	\$ 4,924,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	150,074	271,982
Stock based compensation	-	19,833
Change in fair value of warrant liability	(4,902)	3,060
Financing costs	774,286	353,926
Impairment of investments	-	450
Unrealized gain on investments	(10,519)	-
(Increase) decrease in operating assets:		
Accounts receivable	213,255	571,259
Inventory	(711,767)	(377,557)
Prepays	1,307,511	(1,264,613)
Unbilled receivables	174,113	10,439
Other current assets	178,720	(151,107)
Deferred tax asset	(110,667)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(692,581)	(422,670)
Accrued expenses and other current liabilities	(686,133)	(175,844)
Deferred revenue	(2,637,668)	1,111,912
	<u>3,259,209</u>	<u>4,875,398</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(620,394)	(280,925)
Cash subject to restriction	(18,109)	-
Purchases of intangible assets	(10,422)	(11,548)
	<u>(648,925)</u>	<u>(292,473)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on loans and notes payable	(32,329)	(1,025,152)
Proceeds from correction of stock buy back	-	2,800
	<u>(32,329)</u>	<u>(1,022,352)</u>
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH	<u>\$ 492,435</u>	<u>\$ 219,017</u>

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 3,070,390	\$ 3,779,590
CASH AT BEGINNING OF YEAR	<u>5,177,879</u>	<u>1,398,289</u>
CASH AT END OF YEAR	<u>\$ 8,248,269</u>	<u>\$ 5,177,879</u>
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 817,321	\$ 347,373
Cash paid for income taxes	\$ -	\$ -
 NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Common stock issued for accrued interest	\$ -	\$ 1,020,000
Common stock issued for debt	\$ 571,036	\$ -
Building purchase financed by a note payable	\$ 530,701	\$ -

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

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 in 2004 following a reverse merger with The Panda Project. At the same time it changed its name to Coda Octopus Group, Inc.

We are a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in Florida, with research and development, sales and manufacturing facilities located in the United Kingdom and Norway. We also have our marine engineering operations in the State of Utah, USA and United Kingdom.

The consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements presented with these Notes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

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

b. Cash and Cash Equivalents

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

c. Trade Accounts Receivable

Trade accounts receivable are recorded net of the allowance for doubtful accounts. The Company provides for an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Balances still outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. The allowance for doubtful accounts was \$-0- as of October 31, 2013 and 2012.

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 of the property and equipment are charged to operations as incurred. Major additions and improvements are capitalized. Depreciation and amortization are computed using the straight-line method over three to four years, their estimated useful lives.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Advertising

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

f. Inventories

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

	October 31,	
	2013	2012
Raw materials and parts	\$ 1,226,969	\$ 1,055,868
Work in progress	178,461	266,881
Demo goods	1,004,032	662,811
Finished goods	682,493	394,628
Total Inventory	\$ 3,091,955	\$ 2,380,188

g. Estimates

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

h. Revenue Recognition

Our revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications and from the engineering services which we provide. Revenue is recognized when good evidence of a contractual arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

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

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

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT 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. The Company does not believe that it is subject to any unusual risks or significant risks in the normal course of its business.

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

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

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheets. These amounts are stated on the consolidated balance sheets as Unbilled Receivables of \$520,838 and \$694,951 as of October 31, 2013 and 2012, respectively.

Our Deferred Revenue of \$488,366 and \$3,126,034 as of October 31, 2013 and 2012, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations – elaborated further below.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheets. These amounts are stated on the balance sheets as Deferred Revenue of \$72,858 and \$2,547,334 as of October 31, 2013 and 2012, 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 Deferred Revenue of \$415,508 and \$578,700 as of October 31, 2013 and 2012, 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.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Income Taxes (Continued)

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

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

l. Intangible Assets

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Goodwill is not amortized and is evaluated for impairment annually or more often if circumstances indicate impairment may exist. Customer relationships, non-compete agreements, patents and licenses are being amortized on a straight-line basis over periods of 2 to 10 years. The Company amortizes its amortizable intangible assets using the straight-line method over their estimated period of benefit. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. At the end of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill.

m. Fair Value of Financial Instruments

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Foreign Currency Translation

Assets and liabilities are translated at the prevailing exchange rates at the balance sheet dates, related revenue and expenses are translated at average exchange rates in effect during the period and stockholders' equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income or (loss) as may be appropriate. Foreign currency transaction gains and losses are included in the statement of income.

o. Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the years ended October 31, 2013 and 2012.

p. Research and Development

Research and development costs consist of expenditures for the present and future patents and technology, which are not capitalizable. We are eligible for UK and Norway tax credits related to our qualified research and development expenditures. Tax credits are classified as a reduction of research and development expense. During the years ended October 31, 2013 and 2012, we recorded tax credits totaling \$33,447 and \$42,252, respectively.

q. Stock Based Compensation

We recognize the expense related to the fair value of stock-based compensation awards within the statement of income. We have used the transition method, for stock-based compensation expense for the years ended October 31, 2013 and 2012 and have included compensation expense (when applicable) for unvested stock-based compensation awards that were outstanding as of January 1, 2006 for which the requisite service was rendered during the year. The stock-based compensation costs for these awards granted prior to January 1, 2006 were based on the grant date fair value. Compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 is based on the grant date fair value estimated and recorded over the requisite service period.

We use the fair value method for equity instruments granted to non-employees and use the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Comprehensive income includes gains and losses on foreign currency translation adjustments and is included as a component of stockholders' deficit.

s. Earnings Per Share

We compute basic earnings per share by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effect, if any, from the potential exercise of stock options and warrants.

t. Liquidity

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

For the fiscal year ended October 31, 2013, the Company had:

Cash and cash equivalents	\$ 8,248,269
Working capital surplus	11,601,978
Total stockholders' equity	899,799
Accumulated deficit	(47,949,843)
Net income for the year ended October 31, 2013	5,315,487
Positive cash flows from operations	3,259,209

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

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

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 \$18,109 as of October 31, 2013 and is shown as a long-term asset as the restricted cash balance is expected to be maintained through the life of the lease.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL

Goodwill and other intangible assets are evaluated on an annual basis. If there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations.

The identifiable intangible assets acquired and their carrying value at October 31, 2013 and 2012 is as follows:

	2013	2012
Customer relationships (weighted average life of 10 years)	\$ 694,503	\$ 694,503
Non-compete agreements (weighted average life of 3 years)	198,911	198,911
Patents (weighted average life of 10 years)	117,161	106,739
Total identifiable intangible assets - gross carrying value	1,010,575	1,000,153
Less: accumulated amortization	(703,712)	(623,338)
Total intangible assets, net	\$ 306,863	\$ 376,815

Future estimated annual amortization expense as of October 31, 2013 is as follows:

Years Ending October 31,	Amount
2014	\$ 81,156
2015	81,156
2016	81,156
2017	39,854
2018	7,991
Thereafter	15,550
Totals	\$ 306,863

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$80,374 and \$79,069 for the years ended October 31, 2013 and 2012, respectively. Goodwill is not being amortized.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL (Continued)

As a result of the acquisitions of Martech, Colmek, Products, and Dragon, the Company has goodwill in the amount of \$3,382,108 as of October 31, 2013 and 2012. The carrying amount of goodwill as of the years ended October 31, 2013 and 2012 are recorded below:

<u>Breakout of Goodwill:</u>	2013	2012
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)	282,533	282,533
Total Goodwill	\$ 3,382,108	\$ 3,382,108

Considerable management judgment is necessary to estimate fair value. We enlisted the assistance of an independent valuation consultant to determine the values of our intangible assets and goodwill 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 2013 and management's considered opinion is that the carrying values are reasonable.

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31, 2013 and 2012:

	2013	2012
Buildings	\$ 1,063,885	\$ -
Office machinery and equipment	777,728	789,823
Furniture, fixtures and improvements	258,680	159,378
Totals	2,100,293	949,201
Less: accumulated depreciation	(767,516)	(697,819)
Property and Equipment - Net	\$ 1,332,777	\$ 251,382

Depreciation expense for the years ended October 31, 2013 and 2012 was \$69,700 and \$192,913, respectively.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets consisted of the following at October 31, 2013 and 2012:

	2013	2012
Deposits	\$ 49,483	\$ 93,943
Other receivables	86,204	146,136
UK corporate tax refund from R&D credits	-	42,252
Value added tax (VAT) receivable	334,724	366,800
Total Other Current Assets	\$ 470,411	\$ 649,131

NOTE 6 - WARRANT LIABILITY

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

Fair value was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 1.06%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 302.22%; (4) an average expected life of the warrants of 2.22 years and (5) estimated fair value of common stock of \$0.08 per share.

At October 31, 2013 and 2012 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value to be \$-0- and \$4,902, respectively. The fair value of the conversion features was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.14%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 320%; (4) an average expected life of the conversion feature of 0.32 years and (5) estimated fair value of common stock of \$0.07 per share.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 6 - WARRANT LIABILITY (Continued)

We have recorded gains of \$4,902 and \$14,592 during the years ended October 31, 2013 and 2012, respectively, related to the change in fair value during these periods.

As of October 31, 2013 and 2012 there are -0- and 600,000, respectively, warrants in issue.

NOTE 7 - CAPITAL STOCK

Common Stock

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

During the year ended October 31, 2013, the Company issued 4,021,380 shares of our common stock to CCM Holdings, LLC in satisfaction of debt amounting to \$571,036.

During the year ended October 31, 2012, the Company issued 15,316,315 shares of our common stock to Solidor Investments Limited in lieu of settling off existing interests obligations of \$1,020,000 and restructuring of the debt. The Company also issued 100,000 common shares to an individual.

The Company has issued and outstanding 93,776,356 and 89,754,976 shares of common stock as of October 31, 2013 and 2012, 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 have designated 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock is undesignated.

Series A Preferred Stock

The Series A Preferred Stock currently in issue was sold in units of \$100 and £100 and has a dividend rate of 12% per year paid every six months, in May and November, out of legally available funds within the meaning of Delaware law. The Series A Preferred Stock and accrued dividends is convertible at the option of the holder into shares of our common stock at a conversion price of \$1.00 per share and at the option of the Company when the stock price reaches or exceeds \$3.00.

As of October 31, 2013 and 2012 the Company has 6,287 shares of Series A Preferred Stock in issue.

Series B Preferred Stock

The Series B Preferred Stock ranks junior to our issued and outstanding Series A preferred Stock and senior to all classes of common stock. The Series B Preferred Stock has a dividend rate of 8% per year. The Series B Preferred Stock and accrued dividends are convertible at the option of the holder into shares of our common stock at a conversion price of \$1.00 per share.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 7 - CAPITAL STOCK (Continued)

Series B Preferred Stock (Continued)

As of October 31, 2013 and 2012 the Company has no shares of Series B Preferred Stock outstanding.

NOTE 8 - WARRANTS AND STOCK OPTIONS

Transactions involving warrants issued are summarized as follows:

Warrants

	Year Ended October 31, 2013		Year Ended October 31, 2012	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding beginning of the year	600,000	\$ 1.50	5,459,418	\$ 1.49
Granted during the year	-	-	-	-
Expired/cancelled during the year	<u>(600,000)</u>	\$ 1.50	<u>(4,859,418)</u>	\$ 1.49
Outstanding at end of the year	<u>-</u>	\$ -	<u>600,000</u>	\$ 1.50
Exercisable at end of the year	<u>-</u>	\$ -	<u>600,000</u>	\$ 1.50

Transactions involving stock options issued are summarized as follows:

Stock Options

	Year Ended October 31, 2013		Year Ended October 31, 2012	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding beginning of the year	235,000	\$ 1.25	560,000	\$ 1.43
Granted during the year	-	-	-	-
Expired/cancelled during the year	<u>(185,000)</u>	\$ 1.30	<u>(325,000)</u>	\$ 1.57
Outstanding at end of the year	<u>50,000</u>	\$ 1.05	<u>235,000</u>	\$ 1.25
Exercisable at end of the year	<u>50,000</u>	\$ 1.05	<u>235,000</u>	\$ 1.25

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 8 - WARRANTS AND STOCK OPTIONS (Continued)

The number and weighted average exercise prices of options outstanding as of October 31, 2013 are as follows:

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life (in Yrs)</u>	<u>Total Exercisable</u>
\$1.05	<u>50,000</u>	1.60	<u>50,000</u>
Totals	<u><u>50,000</u></u>	1.60	<u><u>50,000</u></u>

NOTE 9 - INCOME TAXES

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

The Company adopted the provisions of Accounting Standards Codification 740, *Income Taxes* (ASC 740), on July 1, 2007. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of ASC 740, the Company performed a review of its material tax positions in accordance with and measurement standards established by ASC 740. At the adoption date of July 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the years ended October 31, 2013 and 2012. 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, 2013 and 2012 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 9 - INCOME TAXES (Continued)

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$18,190,000 as of October 31, 2013, which expire 2026 through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the U.S. tax carry-forward is approximately \$7,090,000 as of October 31, 2013. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management which is based upon the earning history of the Company it is more likely than not that the benefits will not be fully realized.

For income tax reporting purposes, the Company's aggregate UK and Norway unused net operating losses approximate \$654,000 with no expiration. The deferred tax asset related to the UK and Norway tax carry-forwards is approximately \$211,667. 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Net operating loss carry-forward benefit	\$ 7,301,667	\$ 9,050,000
Valuation allowance	<u>(7,191,000)</u>	<u>(9,050,000)</u>
Net deferred tax asset	<u>\$ 110,667</u>	<u>\$ -</u>

The Company did incur tax expense, net of any benefits, for financial purposes in two of its foreign subsidiaries as of the year ended October 31, 2013 as follows:

	<u>2013</u>
Coda Octopus Products Ltd. - United Kingdom	\$ 143,740
Coda Octopus R&D Ltd. - United Kingdom	<u>(33,447)</u>
Total income tax expense	<u>\$ 110,293</u>

The Company earned a refund of \$42,252 from the United Kingdom for tax research credits during 2012 which is shown as a tax refund on the statement of income as of October 31, 2012.

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.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2013 and 2012

NOTE 10 - LOANS AND NOTES PAYABLE

Loans and notes payable consisted of the following at October 31, 2013 and 2012:

	2013	2012
<p>On February 21, 2008 the Company issued a convertible secured debenture with a face value of \$12M ("Secured Debenture"). The Secured Debenture matures on February 21, 2015 at 130% of its face value. The Secured Debenture attracts interest of 8.5%, a minimum of \$510,000 due before November 1 each year (as amended) (minimum was \$250,000 in the prior year). During the term the Secured Debenture is convertible into shares of our common stock, at the option of the Debenture holder, at a conversion price of \$1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above \$2.50 between the second and third anniversaries of this agreement; \$2.90 between the third and fourth anniversaries of this agreement; and \$3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price. Balance includes principal, accrued interest and accrued terminal conversion balance.</p>	\$	\$
	15,885,072	15,110,786
<p>The Company has a 10 year secured mortgage for £330,000, secured by a building in the UK that requires monthly principal payments of £2,750 along with interest at 2.75%, matures October 2023. The conversion rate was 1.61 at October 31, 2013 and will vary according to exchange rates.</p>	530,701	-
<p>The Company has a 7 year unsecured loan note for £100,000 due April 30, 2014; interest rate of 12% annually; repayable at maturity or convertible into common stock at \$1.00 per share if the share price reaches \$3.</p>	161,052	161,052
<p>Total loans and notes payable</p>	16,576,825	15,271,838
<p>Less: current portion</p>	(724,122)	(250,000)
<p>Total Long-Term Loans and Notes Payable</p>	\$ 15,852,703	\$ 15,021,838

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
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NOTE 10 - LOANS AND NOTES PAYABLE

Principal maturities as of October 31, 2013 are as follows:

<u>Years Ending October 31,</u>	
2014	\$ 724,122
2015	15,428,142
2016	53,070
2017	53,070
2018	53,070
Thereafter	<u>265,351</u>
Totals	<u><u>\$ 16,576,825</u></u>

NOTE 11 - SHORT-TERM LOANS PAYABLE - DEBENTURE HOLDER

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

	2013	2012
Loan payable to a debenture holder for £310,000, requires a 20% interest payment. The due date of this obligation was March 2012. Remaining balance was paid off subsequent to year end.	\$ 132,000	\$ 499,261
Loan payable to a debenture holder for £200,000, requires a 20% interest payment. The due date of this obligation was March 2012. Remaining balance was paid off subsequent to year end.	86,000	322,104
Total short-term loans payable - debenture holder	218,000	821,365
Less: current portion	(218,000)	(821,365)
Long-term portion	\$ -	\$ -

NOTE 12 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The Company reports other comprehensive income in accordance with ASC 220, *Comprehensive Income* ("ASC 220"). ASC 220 establishes standards for reporting in the financial statements all changes in equity during a period, except those resulting from investments by and distributions to owners. For the Company, other comprehensive income (loss) consists of foreign currency translation adjustments. Total other comprehensive income (loss) was \$492,435 and \$219,017 for the years ended October 31, 2013 and 2012, respectively.

CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
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NOTE 12 - ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

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

	2013	2012
Balance, beginning of year	\$ (766,971)	\$ (985,988)
Total other comprehensive income (loss) for the year - foreign currency translation adjustment	492,435	219,017
Balance, end of year	\$ (274,536)	\$ (766,971)

NOTE 13 - CONCENTRATIONS

Significant Customers

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).

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

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.

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.

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NOTE 15 - OPERATING LEASES

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

<u>Years Ending October 31,</u>	<u>Amount</u>
2014	\$ 171,447
2015	10,197
Thereafter	<u>-</u>
Total future minimum lease payments	<u>\$ 181,644</u>

NOTE 16 - LINE OF CREDIT

The Company obtained a \$250,000 revolving line of credit with a bank on August 9, 2013. The line of credit will be available until September 1, 2014. Interest accrues on any unpaid outstanding balances at the greater of the bank's Prime Rate plus 1.5% or the Floor Rate of 5%. Interest is due monthly. The line of credit is secured by certain assets of the Company. The Company had no balances due on the line of credit as of the years ended October 31, 2013 and 2012.

NOTE 17 - SUBSEQUENT EVENTS

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.

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.

The Company has evaluated subsequent events through January 27, 2014, the date which the consolidated financial statements were available to be issued, and noted no other subsequent events for inclusion in the notes other than those disclosed above.