



## **Coda Octopus Group, Inc.**

### **Quarterly Report**

**February 1, 2014 – April 30, 2014**

#### **Address:**

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

Symbol: CDOC

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

Fiscal Year: 10/31

**June 16, 2014**

## OUR GROUP



Coda Octopus Group, Inc.



**COLMEK**  
A Coda Octopus Company

**Martech**  
a Coda Octopus company

## **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 hereinfor 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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**1) Name of the issuer and its predecessors (if any)**

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

**2) Address of the issuer's principal executive offices**Company Headquarters

Suite #4, 4020 Kidron Road  
Lakeland  
FL 33811, USA  
+1 801 973 9136  
[info@codaoctopusgroup.com](mailto:info@codaoctopusgroup.com)  
[www.codaoctopusgroup.com](http://www.codaoctopusgroup.com)

IR Contact

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**3) Security Information**

Trading Symbol: CDOC

Exact title and class of securities outstanding: Common Stock and Series A Preferred

CUSIP: 19188U 10 7

Par or Stated Value: 0.001 (Common Stock)

Total shares authorized: As of April 30, 2014 our authorized share capital comprise 150,000,000 Common Stock and 5,000,000 Preferred Stock)

Total shares of Common Stock issued and outstanding as of April 30, 2014: 93,776,356

Total shares of Preferred Stock issued and outstanding as of April 30, 2014: 6,287

#### Transfer Agent

Olde Monmouth Stock Transfer Co., Inc.  
200 Memorial Parkway  
Atlantic Highlands  
New Jersey 07716  
+1 732 872-2727

The Transfer Agent is registered under the Exchange Act.

List any restrictions on the transfer of security:

Other than statutory limitations on the transfer of restricted shares, none.

Describe any trading suspension orders issued by the SEC in the past 12 months.

None.

#### **4) Issuance History**

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities.

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 certain debt obligations (i.e. the Senior Debentures) to that entity as well as the payment of interest due on the Senior Debentures in the amount of \$1,020,000.

On March 5, 2013 the Company issued 4,021,380 shares to CCM LLC in full and final satisfaction of an amount of \$571,036 and in consideration for postponing part of the coupon to maturity. This amount formed part of a series of small loans which the Debenture Holder had made available as working capital to the business in March 2011.

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.

## **5) Financial Statements**

Unaudited interim financial statements for Coda Octopus Group, Inc. for the period ended April 30, 2014 are included in this Quarterly Report at pages 22 through to 25. The unaudited financial statements contain:

1.	Condensed consolidated statements of operations and comprehensive income for the six months ended April 30, 2014 (Unaudited) and 2013 (Unaudited)
2.	Condensed consolidated balance sheet as of April 30, 2014 (Unaudited) and October 31, 2013 (Audited)
3.	Condensed consolidated statement of stockholders' surplus for the six months ended April 30, 2014 (Unaudited)
4.	Condensed consolidated statements of cash flow for the Six months ended April 30, 2014 (Unaudited) and 2013 (Unaudited)
5.	Notes to consolidated financial statements (Unaudited)

The unaudited 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 unaudited consolidated financials and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

## **Management Discussions on Results from our Operations for the Six Months ended April 30, 2014**

### **Comparison of the Six Months Ended April 30, 2014 to the Six Months Ended April 30, 2013**

#### **General Statement on our Results for the Six Months Ended April 30, 2014**

Our Results for the Six Months Ended April 30, 2014 are down compared to the Six Months ended April 30, 2013. In respect of the Marine Technology part of our business this is due to a combination of

factors which mainly are: (i) changing trend in the market for our real time 3D Products and (ii) delay in government procurement affecting our engineering subsidiaries. The demand for our real time 3D sonar product is increasing. This is however for the rental of the equipment as opposed to the purchase. Furthermore the rental market is not only serviced by us but also by our customers who have purchased the equipment to rent. Although this will affect our revenues in the short term, we believe that some of these customers will purchase after realizing the positive benefits the equipment can have on the successful implementation of their projects. Furthermore, our gross profit margins are higher on the rental of our products. In respect of the Marine Engineering arm of our business, we have been affected in the first two Quarters of this financial year by the uncertainties in US Government spending and its sequestration program. In particular, a number of significant orders projected for the first and second Quarters have been delayed indefinitely.

The decline in our revenues during the reporting period has impacted negatively on our overall operating income and performance as a whole.

The Management is focused on understanding these factors and revising our strategy and business model accordingly.

***Revenues for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Revenues for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>Revenues for the Six Months ended April 30, 2013*)</b>
\$7,487,498	Decrease of 26.0% ("Decrease")	\$10,113,184

\*) Unaudited

We believe that the Decrease in Revenues during the reporting period is due to a combination of factors. In respect of our Marine Technology arm these factors include an increase in demand for the rental of our real time 3D products at the expense of sales of these products. We are revising our strategy to address these factors. In respect of our Marine Engineering arm, we have been adversely affected by the uncertainties present in US Government spending and its sequestration program. This has resulted in the postponement of the placement of orders in our engineering business, Coda Octopus Colmek, Inc. Furthermore, Coda Octopus Martech Ltd has suffered substantial delay in securing its production order for the decontamination units which are now approved ground equipment for a major international military aircraft program and although the first of these orders has now been received by Coda Octopus Martech, this delay has impacted adversely in its revenues and thus the consolidated revenues of the Group.



***Gross Margins for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Margins for the Six Months ended April 30, 2014*)</b>	<b>Margins for the Six Months ended April 30, 2013*)</b>
63.8% (gross profit of \$4,775,260)	57.0% (gross profit of \$5,767,257)

\*) Unaudited

This increase in gross margin percentage over the year reflected a different mix of sales in the reporting period. Although there is a decline in our revenues, the rental of our equipment with associated services yields higher gross profit margins for our business.

***Research and Development (R&D) for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>R&amp;D costs for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>R&amp;D costs for the Six Months ended April 30, 2013*)</b>
\$540,678	Decrease of 2.1% ("Decrease")	\$552,238

\*) Unaudited

In the furtherance of the onward development of our patented real time 3D technology we have started to invest in expanding the technology and other products and would expect to see an increase in our R&D expenditures in the next two financial years. A large part of these expenses will be in relation to new products that we have under development. Notwithstanding this strategy, we are leveraging the synergies and expertise within our Group (where we have approximately 70 engineers across the Group) and as such our Marine Engineering is a key part of our strategy to further develop our core technology and bring new products to the market.

***Selling, General and Administrative Expenses (SG&A) for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>SG&amp;A for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>SG&amp;A for the Six Months ended April 30, 2013*)</b>
\$2,841,067	Increase of 4.8% ("Increase")	\$2,710,587

\*) Unaudited

The increase in our SG&A is in-keeping with our strategy to increase our global and direct sales force and also the costs (including relocation costs of \$37,443) associated with establishing an office in Perth,

Australia and moving personnel to that location. We estimate over a full year on an exceptional basis we will incur expenditures of \$100,000 excluding audit costs related to this new location. Furthermore, in the reporting quarter we had extraordinary expenses associated with participating in the bi-annual maritime show event, Oceanology 2014.

***Key Areas of SG&A and R&D Expenditure across the Group for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Expenditure</b>	<b>April 30, 2014*)</b>	<b>Percentage Change</b>	<b>April 30, 2013*)</b>
Wages and Salaries	\$1,954,446	Decrease of 1.9%	\$1,992,308
Legal and Professional Fees (including accounting, audit and investment banking services)	\$394,091	Increase of 34.4%	\$293,331
Travel Costs	\$97,536	Increase of 68.9%	\$57,751
Marketing	\$119,856	Increase of 29.1%	\$92,855
Rent and office costs for our various locations	\$289,451	Increase of 2.2%	\$283,353

\*) Unaudited

**Wages and Salaries:** Although there is a modest decrease in the reporting period, in keeping with our strategy to increase our direct sales resources across the Group, we would expect this area of expenditure to increase prudently but gradually.

**Legal and Professional Fees:** This area of expenditure has increased largely due to the ongoing litigation. In addition, with the opening of our Australian office we would expect our overall expenditures relating to Legal and Professional Fees to increase.

**Travel Costs and Marketing:** The increase in these areas of expenditure is in keeping with our strategy to increase our direct sales effort. The increase therefore is due to more sales and business development travel undertaken year to date.

**Rent and Office Costs:** The increase in this area of expenditure is due to one-off expenditures in upgrading our telecommunications systems in our subsidiary Coda Octopus Colmek.

***Operating Income for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Operating Income for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>Operating Income for the Six Months ended April 30, 2013*)</b>
\$1,393,515	Decrease of 44.4% ("Decrease")	\$2,504,432

\*) Unaudited

This Decrease is largely attributable to the decrease of revenues for the reasons explained above.

***Other Income for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Other Income for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>Other Income for the Six Months ended April 30, 2013*)</b>
\$89,907	Increase of 24.6% ("Increase")	\$72,139

\*) Unaudited

The increase in Other Income is attributable to Value Added Tax (Sales Tax) refund in the reporting period.

***Interest Expense for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Interest Expense for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>Interest Expense for the Six Months ended April 30, 2013*)</b>
\$805,016	Increase of 2.1% ("Increase")	\$788,659

\*) Unaudited

This amount comprises interests on (i) the Senior Debentures; and (ii) interest on mortgage obligation. In respect of the former category these amounts (in both periods) also include amortization of 30% redemption premium which the Senior Debentures attract.

The slight increase in this area of expenditure is attributed to additional interests that we are obligated to pay on mortgage obligation for the new facility in Osprey Quay, Portland, United Kingdom which we acquired in October 2013.

***Net Income or Loss for the Six Months ended April 30, 2014 compared to the Six Months ended April 30, 2013***

<b>Net Income for the Six Months ended April 30, 2014*)</b>	<b>Percentage Change</b>	<b>Net Income for the Six Months ended April 30, 2013*)</b>
\$677,212	Decrease of 62.2% ("Decrease")	\$1,790,706

\*) Unaudited

This Decrease is attributable to decreased sales in the reporting period for the reasons described above.

**Inflation and Foreign Currency.**

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

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

During the Six Months Ended April 30, 2014, a summary of our material foreign currency transactions includes:

	UK £	Norwegian Kroner (Nkr)	Australian Dollar (AUD)	Total \$
Revenues from foreign subsidiary	2,596,897	–	615	4,321,133
Direct Costs of foreign subsidiaries	469,037	1,277,971	311	991,916

The prevailing exchange rates during the Six Months Ended April 30, 2014 ranged between \$1.5898 and \$1.6823 for Pound Sterling; between \$0.1590 and \$0.1686 to the Norwegian Kronor for the same period, and between \$0.8689 and \$0.9706 to the Australian dollar for the same period. The above are calculated at the average of the exchange rates at the end of the six months from November 1, 2013 to April 30, 2014.

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

## **6) Describe the Issuer's Business, Products and Services**

### **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 three wholly owned subsidiaries, Coda Octopus Products Limited (United Kingdom), Coda Octopus Products, Inc. (USA.) and Coda Octopus Products Pty Ltd.

Our most important product, the patented real time 3D 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 real time 3D 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 Business, 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 recently completed the Customer Acceptance Phase of a prototype decontamination unit 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 has subjected this to its own verification testing. This has now been accepted and forms part of the recommended ground equipment for this aircraft and we expect that Martech will be the incumbent for the production of this product. We have recently received the first production order for this product. The value of the first production order is \$856,992.

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

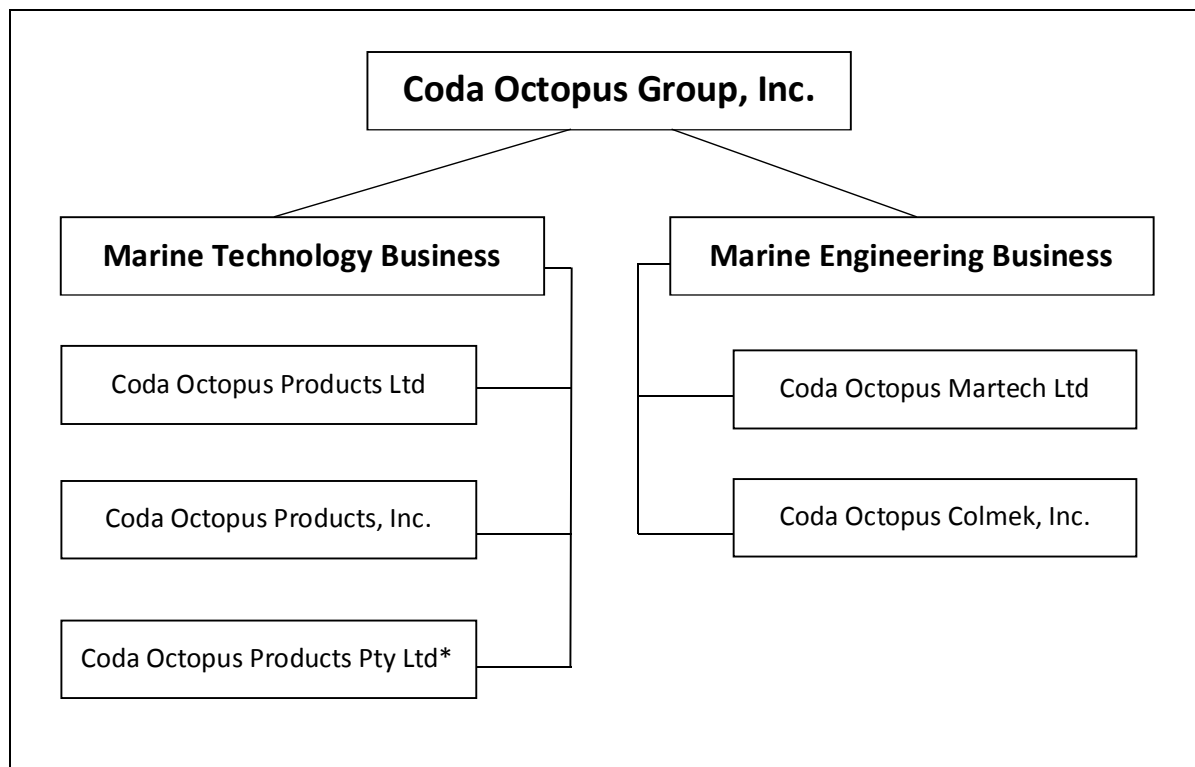
- Martech is LRQ accredited ISO9001:2008 and TickIT Guide Issue 5.5.
- Colmek is ISO9001:2008 compliant.

Martech has moved to new facilities owned by the Marine Technology Business and will be providing more support to the Marine Technology Business on developing and supporting its flagship patented 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.

## GROUP STRUCTURE

Our Group Structure is as follows:



\*) This company was formed in December 2013.

In addition, we have a research and development facility operated through Coda Octopus R&D AS in Norway and Coda Octopus R&D Limited in the United Kingdom.

### Ongoing Restructuring Plans

The Company's Balance Sheet currently includes \$16,397,214 in Senior Secured Debentures which were issued in February 2008 and which provides for a 30% redemption premium. This amount includes provisions in our accounts for principal, interests and redemption premium accrued to date. The Debentures mature on February 21, 2015 ("Debt"). On February 21, 2014 this amount was reclassified in our financials as short term since the term is now less than twelve (12) months.

The Board of Directors' goal is to work with the current Debenture Holder to reach agreement on the restructuring of the Debt prior to maturity. We believe this will be beneficial to all stockholders as reduction of the Debt will increase the overall value of the business. Nevertheless, it is most unlikely that the Company will be able to pay in cash \$16,397,214 (plus additional redemption premiums which are incurred daily until redemption of the Debt). Consequently, it is most probable that the Company will negotiate the issuance of shares to satisfy a part of the Debt at a price which is more in keeping with

the market price (and not the conversion price of \$1.05 provided for in the Debentures). The Company intends to engage an investment bank or other valuation professionals to assist it in structuring a transaction that would reduce or eliminate the Company's Debt.

We are also seeking to raise additional financing to refinance the Debt (in whole or in part).

We believe that the reduction or elimination of the Debt will positively impact the value of the Business and significantly enhance its prospects going forward.

### **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 agreements entered into on or around 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.

This pending lawsuit does impact on the Company's ability to reach any agreement with the Debenture Holder on the conversion of the debt in whole or part.

### **7) Describe the Issuer's Facilities**

**Lakeland, Florida, USA. (Headquarters to Group and operational facilities for Coda Octopus Products, Inc.)**

Our corporate offices, which co-locate with our wholly owned subsidiary, Coda Octopus Products, Inc., are located at 4020 Kidron Road, Lakeland, Florida 33811, USA, where the Company on or around November 14, 2012 acquired a property comprising 4,154 square feet office and warehouse space and testing facilities.



**Salt Lake City, Utah, USA. (Marine Engineering Facilities)**

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. (Marine Technology Operations)**

Our wholly owned United Kingdom subsidiary, Coda Octopus Products Ltd, leases business premises comprising 4,099 square feet and located at 2<sup>nd</sup> Floor, Anderson House, 1 Breadalbane Street, Edinburgh, EH6 5JR, United Kingdom. These premises are used as offices. The building is located close to the Port of Leith and the Firth of Forth, which is convenient for conducting trials and demonstrations of our products.

The Company has now extended the lease on these premises until February 28, 2019. The annual rent is fixed for the duration of the lease at the British Pounds equivalent of \$54,130 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations).

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. (Marine Engineering Facilities with dedicated facilities for Marine Technology Operations)**

Martech is located in 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. (Marine Technology Development Center)**

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.

## 8) Officers, Directors, and Control Persons as of April 30, 2014

Officers and Directors:

- Michael Hamilton, Director and Chairman of the Board, Maywood, New Jersey, USA
- Robert Ethrington, Director, England, United Kingdom.
- Annmarie Gayle, LL.B, LLM, Group Chief Executive Officer and Director, Denmark
- Geoff Turner, Executive Director and Deputy Chief Executive Officer, England, United Kingdom
- Blair Cunningham, President of Technology and Director, USA
- Mike Midgley, Acting Chief Financial Officer, USA and CEO of our subsidiary Coda Octopus Colmek, Inc.

Control persons as of April 30, 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 April 30, 2014 the following persons were recorded as beneficially owning more than ten percent (10%) of the issuer's common stock:

Shareholder	Number of Common Stock / (%)
Greenhouse Investments Limited 1st floor, Liberation Station The Esplanade St Helier, Jersey JE2 3AS British Channel Islands Michael O'Leary Collins has voting and dispositive power over the shares held by this entity. The Company has been advised that Core Fund has an option to acquire 67.5% of these shares subject to certain conditions.	24,167,310 / (25.8%)
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.

## 9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

### Accountant or Auditor

Stayner, Bates & Jensen, PC, Certified Public Accountants and Consultants  
510 South 200 West, Suite 200  
Salt Lake City, Utah 84101  
+1 801-531-9100

#### **10) Issuer Certification**

I, Annmarie Gayle, certify that:

1. I have reviewed this quarterly disclosure statement for the period ending April 30, 2014 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.

June 16, 2014

/s/ Annmarie Gayle  
Group CEO

**CODA OCTOPUS GROUP, INC.**

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for the Three and Six Months ended April 30, 2014 (Unaudited) and 2013 (Unaudited)

Coda Octopus Group, Inc

Consolidated Accounts

	Three Months Ended April 30th, 2014	Three Months Ended April 30th, 2013	Six Months Ended April 30th, 2014	Six Months Ended April 30th, 2013
<b>Income Statement</b>				
Net Revenue	\$ 4,119,174	\$ 5,637,152	\$ 7,487,498	\$ 10,113,184
Cost of Revenue	1,493,633	2,597,021	2,712,238	4,345,927
<b>Gross Profit</b>	<b>2,625,541</b>	<b>3,040,131</b>	<b>4,775,260</b>	<b>5,767,257</b>
Research & Development	229,818	255,557	540,678	552,238
Selling, General & Administrative	1,471,922	1,309,742	2,841,067	2,710,587
<b>Operating Income/Loss</b>	<b>923,801</b>	<b>1,474,832</b>	<b>1,393,515</b>	<b>2,504,432</b>
<b>Other Income (Expense)</b>				
Other Income	58,896	48,370	89,907	72,139
Interest Expense	(405,254)	(381,776)	(805,016)	(788,659)
Gain (loss) on change in fair value of derivative liability	-	46	-	4,902
Unrealized gain on sale of investment in marketable securities	-	(2,108)	(1,194)	(2,108)
Realized gain on the sale of marketable securities	-	-	-	-
<b>Total other income (expense)</b>	<b>(346,358)</b>	<b>(335,468)</b>	<b>(716,303)</b>	<b>(713,726)</b>
Income (Loss) before income taxes	577,443	1,139,364	677,212	1,790,706
Income tax refund (expense)	-	-	-	-
<b>Net Income (Loss)</b>	<b>577,443</b>	<b>1,139,364</b>	<b>677,212</b>	<b>1,790,706</b>
Preferred Stock Dividends Series A Series B Beneficial Conversion Feature	-	-	-	-
<b>Net Income (Loss) Applicable to Common Shares</b>	<b>\$ 577,443</b>	<b>\$ 1,139,364</b>	<b>\$ 677,212</b>	<b>\$ 1,790,706</b>
Income (Loss) per share, basic and diluted	\$ 0.01	\$ 0.01	\$ 0.007	\$ 0.02
Weighted average shares outstanding	93,776,356	92,285,220	93,776,356	90,999,129
<b>Comprehensive loss</b>				
Net income (loss)	\$ 577,443	\$ 1,139,364	\$ 677,212	\$ 1,790,706
Foreign currency translation adjustment	297,849	72,915	465,006	72,859
Unrealized gain (loss) on investment	-	-	-	-
<b>Comprehensive income (loss)</b>	<b>\$ 875,292</b>	<b>\$ 1,212,279</b>	<b>\$ 1,142,218</b>	<b>\$ 1,863,565</b>

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

Condensed consolidated balance sheets as of April 30, 2014 (Unaudited) and October 31, 2013 (Audited)

<b>Balance Sheet</b>	<b>April 30th, 2014</b>	<b>October 31st, 2013</b>
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 7,401,910	\$ 8,248,269
Restricted Cash	17,472	18,109
Short Term Investments	11,556	12,750
Accounts Receivables, net of allowance for doubtful accounts	2,705,484	2,418,846
Inventory	3,676,176	3,091,955
Unbilled Receivables, Note 2	1,697,153	520,838
Other current assets, Note 3	250,826	478,011
Prepaid Expenses	136,587	193,001
<b>Total Current Assets</b>	<b>15,897,164</b>	<b>14,981,779</b>
<b>Fixed Assets</b>		
Property and Equipment, net, Note 4	1,740,765	1,332,777
Goodwill and other intangibles, net, Note 5	3,598,216	3,688,971
<b>Total Fixed Assets</b>	<b>5,338,981</b>	<b>5,021,748</b>
<b>Other Assets</b>		
Deferred Tax Asset	37,294	110,667
<b>Total Assets</b>	<b>\$ 21,273,439</b>	<b>\$ 20,114,194</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Current Liabilities</b>		
Accounts Payable, trade	\$ 1,341,810	\$ 1,133,186
Accrued Expenses and other current liabilities	496,443	790,417
Short term loan payable	-	218,000
Loans and note payable, short term, Note 11	16,452,931	543,000
Warrant liability, Note 8	-	-
Deferred revenues, Note 2	468,720	488,366
<b>Total Current Liabilities</b>	<b>18,759,904</b>	<b>3,172,969</b>
<b>Loans and note payable, long term, Note 11</b>	<b>463,917</b>	<b>16,033,825</b>
<b>Total Liabilities</b>	<b>19,223,821</b>	<b>19,206,794</b>
<b>Contingencies and Commitments, Note 10</b>		
<b>Stockholders' equity (deficit)</b>		
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of April 30, 2014 and October 31, 2013, respectively	6	6
Nil shares Series B issued and outstanding as of April 30, 2014 and October 31, 2013, respectively	-	-
Common stock, \$.001 par value; 150,000,000 shares authorized, 93,776,356 and 93,776,356 shares issued and outstanding as of April 30, 2014 and October 31, 2013	93,776	93,776
Additional paid-in capital	49,030,395	49,030,395
Accumulated other comprehensive loss	190,698	(274,308)
Accumulated deficit / surplus	(47,265,257)	(47,942,469)
<b>Total Stockholder's Equity (Deficit)</b>	<b>2,049,618</b>	<b>907,400</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 21,273,439</b>	<b>\$ 20,114,194</b>

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

Consolidated statement of changes in stockholders' equity for the Six Months ended April 30, 2014 (Unaudited)

	Preferred Stock Series A Shares	Amount	Common Stock Shares	Amount	Stock Subscribed	Additional Paid-in Capital	Accumulated Other Comprehensive Gain / (Loss)	Accumulated Deficit	Total
Balance, October 31, 2013	6,287	6	93,776,356	93,776	-	49,030,395	(274,308)	(47,942,469)	907,401
Foreign currency translation adjustment			-	-		-	465,006		465,006
Net Income								677,212	677,212
Balance, April 30, 2014	6,287	6	93,776,356	93,776	-	49,030,395	190,698	(47,265,257)	2,049,619

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



Condensed consolidated statements of cash flows for the Three and  
Six Months ended April 30, 2014 (Unaudited) and 2013 (Unaudited)

<b>Cash Flow</b>	<b>Three Months Ended April 30th, 2014</b>	<b>Three Months Ended April 30th, 2013</b>	<b>Six Months Ended April 30th, 2014</b>	<b>Six Months Ended April 30th, 2013</b>
<b><u>Cash Flows from Operating Activities</u></b>				
Net income/(loss)	\$ 577,443	\$ 1,139,364	\$ 677,212	\$ 1,790,706
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and amortization	58,213	87,030	123,611	178,445
Stock based compensation	-	-	-	-
Change in fair value of warrant liability	-	(46)	-	(429,432)
Financing costs	(46,155)	222,519	340,022	356,091
Impairment of investment of marketable securities	-	-	-	-
Bad debt expense	-	-	-	-
Gain on sale of investment in marketable securities	-	2,108	1,194	2,108
Loss on sale of assets	-	-	-	-
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Short-Term Investments	-	-	-	-
Accounts receivable	(112,094)	(429,432)	(286,639)	(400,433)
Inventory	(198,590)	91,513	(584,221)	218,450
Prepaid expenses	(5,364)	128,162	56,414	192,635
Unbilled receivables and Other assets	(1,036,319)	3,480	(949,131)	570,048
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	201,253	115,008	208,626	(287,515)
Deferred revenues	22,910	575,013	(293,974)	(138,817)
Sundry Creditors	(141,461)	(587,927)	(19,646)	(619,462)
Net cash (used)/generated by operating activities	(680,164)	1,346,792	(726,532)	1,857,354
<b><u>Cash Flows from Investing Activities</u></b>				
Purchases of property and equipment	(304,736)	(226,377)	(491,021)	(568,482)
Cash Subject to restriction	-	(18,194)	637	(18,194)
Deferred Tax Asset	-	(155,399)	73,373	(183,706)
Purchases of intangible assets	(12,137)	-	50,178	-
Net cash provided by/(used in) investing activities	(316,873)	(399,970)	(366,833)	(770,382)
<b><u>Cash Flows from Financing Activities</u></b>				
Proceeds from/(repayments of) loans	-	(660,313)	(218,000)	(660,313)
Proceeds for sale of marketable security	-	-	-	-
Shares issued for bond interest	-	602,800	-	602,800
Shares issued for warrants and services	-	-	-	-
Preferred stock dividend	-	-	-	-
Net cash (used)/provided by financing activities	-	(57,513)	(218,000)	(57,513)
Effect of exchange rate changes on cash	297,849	72,915	465,006	72,859
Net (decrease)/increase in cash	(699,188)	962,224	(846,359)	1,102,318
Cash and cash equivalents, beginning of period	8,101,098	5,317,973	8,248,269	5,177,879
Cash and cash equivalents, end of period	<u>\$ 7,401,910</u>	<u>\$ 6,280,197</u>	<u>\$ 7,401,910</u>	<u>\$ 6,280,197</u>

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

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014 (UNAUDITED)**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

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

**General**

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the six months periods ended April 30, 2014, are not necessarily indicative of the results that may be expected for the year ended October 31, 2014. The unaudited condensed financial statements should be read in conjunction with the consolidated audited financial statements of October 31, 2013 and footnotes thereto.

**Business and Basis of Presentation**

Coda Octopus Group, Inc. ("we", "us" "our company" or "Coda") was formed under the laws of the State of Florida in 1992 and re-domiciled to Delaware following a reverse merger with The Panda Project in 2004.

We produce and sell subsea products (software and hardware including patented products such as our real time 3D Sonar). We also provide engineering services for mainly prime and sub-prime defense contractors and subsea clients.

The unaudited condensed consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All our subsidiaries are 100 percent owned.

All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

**Accounts Receivable**

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was \$nil for the period ended April 30, 2014 and \$nil for the year ended October 31, 2013. We have not realized any actual bad debt expense during these periods.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory is comprised of the following components at April 30, 2014 and October 31, 2013:

	<b>Apr 30, 2014</b>	<b>Oct 31, 2013</b>
Inventory – Parts	\$ 1,304,571	\$ 1,226,969
Inventory – Work in progress	\$ 596,828	\$ 178,461
Inventory – Demonstration Asset Pool	\$ 1,057,934	1,004,032
Inventory – Finished goods	\$ 716,843	\$ 682,493
Total inventory	\$ 3,676,176	\$ 3,091,955

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

*Net income (loss) per share*

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

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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computing income available to common stockholders would result in a loss. Accordingly, the diluted EPS would be computed in the same manner as basic earnings per share.

The following reconciliation of net income and share amounts used in the computation of gain per share for the six months ended April 30, 2014:

	<b>Six Months Ended April 30, 2014</b>
Net income used in computing basic net income per share	\$ 677,212
Impact of assumed assumptions:	
Gain on warrant liability marked to fair value	\$ 0
Net income in computing diluted net gain or loss per share:	\$ 677,212

Per share basic and diluted net income amounted to \$0.007 for the period ended April 30, 2014. Per share basic and diluted net gain amounted to \$0.06 for the year ended October 31, 2013.

**Liquidity**

As of April 30, 2014, we had:

Cash and Cash Equivalents	\$ 7,401,910
Working Capital Deficit	\$ (2,862,739)
Stockholders' Equity	\$ 2,049,618
Accumulated Deficit	\$ 47,265,257

For the six months' period ended April 30, 2014, we had:

Net Income	\$ 677,212
Cash Flow from Our Operations	\$ (726,532)

The Company is dependent upon its ability to generate revenue from the sale of its products and services to generate cash to cover operation and implement its business plan including servicing its obligations.

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

**NOTE 2 - CONTRACTS IN PROGRESS**

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the balance sheet as Unbilled Receivables of \$1,697,153 and \$520,838 as of April 30, 2014 and October 31, 2013 respectively.

Our Deferred Revenue of \$468,720 consists of the categories below.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheet. These amounts are stated on the balance sheet as Deferred Revenue of \$77,439 and \$72,858 as of April 30, 2014 and October 31, 2013 respectively.

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of \$391,281 and \$415,508 as of April 30, 2014 and October 31, 2013 respectively.

**NOTE 3 - OTHER CURRENT ASSETS**

Other current assets on the balance sheet total \$287,342 and \$478,011 at April 30, 2014 and October 31, 2013 respectively. These totals comprise the following:

	<b>Apr 30, 2014</b>	<b>Oct 31, 2013</b>
Deposits*	\$ 79,083	\$ 49,483
Other receivable	\$ 171,744	\$ 420,929
<b>Total</b>	<b>\$ 250,827</b>	<b>\$ 470,412</b>

\*1) This amount represents amounts held by third parties to secure certain of our obligations undertaken in the ordinary course of our business, such as rent deposits.

Within the above amount are Value Added Tax (VAT) refunds owed to the Company of \$104,251 and \$334,724 as at April 30, 2014 and October 31, 2013 respectively.

**NOTE 4 - FIXED ASSETS**

Property and equipment (including Real Property) at April 30, 2014 and October 31, 2013 is summarized as follows:

	<b>Apr 30, 2014</b>	<b>Oct 31, 2013</b>
Machinery, property improvements and equipment	\$ 1,503,995	\$ 1,036,408
Real Property	\$ 1,087,322	1,063,888
Accumulated depreciation	\$ (850,552)	\$ (767,516)
<b>Net property and equipment assets</b>	<b>\$ 1,740,765</b>	<b>\$ 1,332,777</b>

Depreciation expense recorded in the statement of operations for the period ended April 30, 2014 and the year ended October 31, 2013 is \$83,084 and \$69,700 respectively.

**NOTE 5 - INTANGIBLE ASSETS AND GOODWILL**

Goodwill and Other Intangible Assets are evaluated on an annual basis, and when there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations. We have conducted a goodwill assessment in this period and based on the methodology used by the Company we have concluded that goodwill was not impaired as at April 30, 2014 and therefore remains unchanged.

The identifiable intangible assets acquired and their carrying value at April 30, 2014 and October 31, 2013 is:

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014 (UNAUDITED)**

	Apr 30, 2014	Oct 31, 2013
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)	\$ 129,303	\$ 117,161
Total amortized identifiable intangible assets - gross carrying value	\$ 1,022,713	\$ 1,010,575
Less accumulated amortization	\$ (744,290)	\$ (703,712)
Net	\$ 278,423	\$ 306,863

Estimated annual amortization expense as of April 30, 2014 is as follows:

For full years ending October 31:

2014	\$ 81,156
2015	\$ 81,156
2016	\$ 81,156
2017	\$ 39,854
2018	\$ 7,991
Thereafter	\$ 15,550
<b>Total</b>	<b>\$ 306,863</b>

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$40,578 and \$80,374 for the six months' period ended April 30, 2014 and year ended October 31, 2013, respectively. Goodwill is not being amortized.

**NOTE 6 - CAPITAL STOCK**

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

No shares of common stock have been issued in the six months' period ended April 30, 2014.

The Company has issued and outstanding 93,776,356 shares of common stock as of June 16, 2014.

**Other Equity Transactions**

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

Period	Number of Options Expired or Cancelled
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Number of options which expired or were cancelled in the six months' period ended April 30, 2014	0
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**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014 (UNAUDITED)**

**NOTE 7 - WARRANTS AND STOCK OPTIONS**

As of the end of this reporting period there are no warrants outstanding.

Stock Options	Six Months ended April 30, 2014		Year ended October 31, 2013	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	50,000	\$ 1.05	235,000	\$ 1.25
Granted during the period	—	—	—	—
Terminated during the period	—	—	(185,000)	\$ 1.30
Outstanding at the end of the period	50,000	\$ 1.05	50,000	\$ 1.05
Exercisable at the end of the period	50,000	\$ 1.05	50,000	\$ 1.05

The number and weighted average exercise prices of stock purchase options outstanding as of April 30, 2014 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Years)	Total Exercisable
1.05	50,000	1.10	50,000
Totals	50,000	1.10	50,000

**NOTE 8 – DERIVATIVE LIABILITY**

The Company's remaining outstanding equity-linked financial instruments in the form of warrants expired in the period ended April 30, 2013. There are currently no warrants outstanding. The Company's senior Debentures are convertible at the option of the Debenture holder and the Company (where the conversion conditions (specified in Note 11 below) are met.

**NOTE 9 - INCOME TAXES**

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

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$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 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.

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate \$654,000 with no expiration. The deferred tax asset related to the carry-forward is approximately \$37,294. The Company has provided a valuation reserve against the asset.

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014 (UNAUDITED)**

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

<b>Non-Current</b>	<b>Oct 31, 2013</b>
Net Operating Loss Carry Forward Benefit	\$ 7,301,667
Valuation Allowance	\$ (7,191,000)
Net Deferred Tax Asset	\$ 110,667

**NOTE 10 - CONTINGENCIES AND COMMITMENTS**

**Litigation**

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.

**Operating Leases**

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through February 2019. Future minimum lease obligations are approximately \$642,387 with the minimum future rentals due under these leases as of April 30, 2014 as follows:

Years Ending October 31 respectively:

2014	\$ 169,387
2015	\$ 131,328
2016	\$ 105,130
2017	\$ 105,130
2018	\$ 105,130
2019	\$ 26,283
Total future minimum lease payments	\$ 642,387

**Concentrations**

Revenue Concentration

None during the reported period.

**CODA OCTOPUS GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2014 (UNAUDITED)**

**NOTE 11 - NOTES AND LOANS PAYABLE**

A summary of notes payable at April 30, 2014 and October 31, 2013 is as follows:

	<u>Apr 30, 2014</u>	<u>Oct 31, 2013</u>
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%. 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 Debentures 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.	\$ 16,397,214	\$ 15,885,072
The Company has a 10 years 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 varies according to exchange rates fluctuations	\$ 519,633	\$ 530,701
The Company had a 7 year unsecured loan note for £100,000 which fell due April 30, 2014; interest rate of 12% annually; repayable at maturity or convertible into common stock at \$1.00 per share if the share price reaches \$3.00. This amount was paid in full in April 2014	\$ 0	\$ 161,052
<b>Total</b>	<b>\$ 16,916,847</b>	<b>\$ 16,576,825</b>
<b>Less: current portion</b>	<b>\$ (16,452,930)</b>	<b>\$ (724,122)</b>
<b>Total Long-Term Loans and Notes payable</b>	<b>\$ 463,917</b>	<b>\$ 15,852,703</b>

**NOTE 12 –SUBSEQUENT EVENTS**

None.