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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 001-38154*

**CODA OCTOPUS GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

34-200-8348  
(I.R.S. Employer  
Identification Number)

7380 W Sand Lake Road, Suite 500, Orlando, Florida  
(Address of principal executive offices)  
Registrant's telephone number, including area code:

32819  
(Zip Code)  
(863) 937 8985

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of issuer's common stock, \$0.001 par value as of June 13 is 10,415,416.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**



# Coda Octopus

**Unaudited Consolidated Financial Statements  
For the Three and Six Months Ended April 30, 2018 and 2017**

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**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets**  
**April 30, 2018 and October 31, 2017**

**ASSETS**

|                                     | <b>2018</b>      | <b>2017</b>   |
|-------------------------------------|------------------|---------------|
|                                     | <b>Unaudited</b> |               |
| <b>CURRENT ASSETS</b>               |                  |               |
| Cash and Cash Equivalents           | \$ 6,936,567     | \$ 6,851,539  |
| Accounts Receivables, Net           | 2,120,010        | 1,418,114     |
| Inventory                           | 4,000,163        | 3,652,249     |
| Unbilled Receivables                | 1,585,907        | 2,723,172     |
| Other Current Assets                | 107,728          | 320,814       |
| Prepaid Expenses                    | 263,698          | 291,623       |
| Total Current Assets                | 15,014,073       | 15,257,511    |
| <b>FIXED ASSETS</b>                 |                  |               |
| Property and Equipment, net         | 5,347,630        | 5,213,281     |
| <b>OTHER ASSETS</b>                 |                  |               |
| Goodwill and Other Intangibles, net | 3,580,470        | 3,589,281     |
| Total Assets                        | \$ 23,942,173    | \$ 24,060,073 |

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets (Continued)**  
**April 30, 2018 and October 31, 2017**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
|   | <u>Unaudited</u>     |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts Payable  | \$ 616,479           | \$ 981,994           |
| Accrued Expenses and Other Current Liabilities  | 416,465              | 519,208              |
| Loans and Note Payable, current   | 1,453,686            | 2,212,951            |
| Deferred Revenues   | 293,795              | 402,955              |
| <b>Total Current Liabilities</b>  | <b>2,780,425</b>     | <b>4,117,108</b>     |
| <b>LONG-TERM LIABILITIES</b>  |                      |                      |
| Deferred revenue, long term   | 55,270               | 49,143               |
| Loans and Note Payable, long term   | 1,301,905            | 6,066,402            |
| <b>Total Long Term Liabilities</b>  | <b>1,357,175</b>     | <b>6,115,545</b>     |
| <b>Total Liabilities</b>  | <b>4,137,600</b>     | <b>10,232,653</b>    |
| <b>STOCKHOLDERS' EQUITY</b>   |                      |                      |
| Preferred stock, Series C, \$.001 par value; 5,000,000 shares authorized, 1,000 shares issued and outstanding, as of April 30, 2018 and October 31, 2017                      | 1                    | 1                    |
| Common stock, \$.001 par value; 150,000,000 shares authorized, 10,415,416 and 9,136,121 shares issued and outstanding as of April 30, 2018 and October 31, 2017, respectively | 10,415               | 9,136                |
| Additional paid-in capital  | 58,485,853           | 52,839,651           |
| Accumulated other comprehensive loss  | (1,463,495)          | (2,038,431)          |
| Accumulated deficit   | (37,228,201)         | (36,982,937)         |
| <b>Total Stockholders' Equity</b>   | <b>19,804,573</b>    | <b>13,827,420</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 23,942,173</b> | <b>\$ 24,060,073</b> |

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 Periods Indicated**  
**Unaudited**

|  | <u>Three Months Ended April 30,</u> |              | <u>Six Months Ended April 30,</u> |               |
|--|-------------------------------------|--------------|-----------------------------------|---------------|
|  | <u>2018</u>                         | <u>2017</u>  | <u>2018</u>                       | <u>2017</u>   |
| Net Revenues                             | \$ 3,526,396                        | \$ 5,278,758 | \$ 6,576,953                      | \$ 10,636,961 |
| Cost of Revenues                         | 940,858                             | 2,013,940    | 1,886,965                         | 3,996,985     |
| Gross Profit                             | 2,585,538                           | 3,264,818    | 4,689,988                         | 6,639,976     |
| <b>OPERATING EXPENSES</b>                |                                     |              |                                   |               |
| Research & Development                   | 640,477                             | 247,758      | 1,311,016                         | 498,988       |
| Selling, General & Administrative        | 2,025,630                           | 1,639,892    | 3,531,387                         | 3,045,780     |
| Total Operating Expenses                 | 2,666,107                           | 1,887,650    | 4,842,403                         | 3,544,768     |
| (LOSS) INCOME FROM OPERATIONS            | (80,569)                            | 1,377,168    | (152,415)                         | 3,095,208     |
| <b>OTHER INCOME (EXPENSE)</b>            |                                     |              |                                   |               |
| Other Income                             | 84,015                              | 86,643       | 90,670                            | 136,059       |
| Interest Expense                         | (80,741)                            | (188,847)    | (183,489)                         | (384,341)     |
| Total Other Income (Expense)             | 3,274                               | (102,204)    | (92,819)                          | (248,282)     |
| NET (LOSS) INCOME BEFORE INCOME TAXES    | (77,295)                            | 1,274,964    | (245,234)                         | 2,846,926     |
| INCOME TAX EXPENSE                       | (30)                                | -            | (30)                              | -             |
| NET (LOSS) INCOME                        | \$ (77,325)                         | \$ 1,274,964 | \$ (245,264)                      | \$ 2,846,926  |
| <b>NET (LOSS) INCOME PER SHARE:</b>      |                                     |              |                                   |               |
| Basic                                    | \$ (0.01)                           | \$ 0.14      | \$ (0.03)                         | \$ 0.31       |
| Diluted                                  | \$ (0.01)                           | \$ 0.14      | \$ (0.03)                         | \$ 0.31       |
| <b>WEIGHTED AVERAGE SHARES:</b>          |                                     |              |                                   |               |
| Basic                                    | 10,353,876                          | 9,102,192    | 9,754,033                         | 9,101,837     |
| Diluted                                  | 10,353,876                          | 9,302,192    | 9,754,033                         | 9,301,837     |
| NET (LOSS) INCOME                        | \$ (77,325)                         | \$ 1,274,964 | \$ (245,264)                      | \$ 2,846,926  |
| <b>Other Comprehensive (Loss) Income</b> |                                     |              |                                   |               |
| Foreign currency translation adjustment  | (381,001)                           | 346,727      | 574,936                           | 767,887       |
| Total Other Comprehensive (Loss) Income  | (381,001)                           | 346,727      | 574,936                           | 767,887       |
| COMPREHENSIVE (LOSS) INCOME              | \$ (458,326)                        | \$ 1,621,691 | \$ 329,672                        | \$ 3,614,813  |

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**For the Six Months Ended April 30, 2018**  
**Unaudited**

|   | Preferred Stock Series C |             | Common Stock      |                  | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Accumulated<br>Deficit | Total               |
|---|--------------------------|-------------|-------------------|------------------|----------------------------------|--|------------------------|---------------------|
|   | Shares                   | Amount      | Shares            | Amount           |                                  |  |                        |                     |
| Balance, October 31, 2017               | 1,000                    | \$ 1        | 9,136,121         | \$ 9,136         | \$52,839,651                     | \$ (2,038,431)   | \$(36,982,937)         | \$13,827,420        |
| Stock Issued to Investors               | -                        | -           | 1,203,727         | 1,204            | 5,311,528                        | -  | -                      | 5,312,732           |
| Stock Issued to Consultants             | -                        | -           | 12,500            | 12               | 57,238                           | -  | -                      | 57,250              |
| Stock Issued to Former Officer          | -                        | -           | 63,068            | 63               | 277,436                          | -  | -                      | 277,499             |
| Foreign currency translation adjustment | -                        | -           | -                 | -                | -                                | 574,936  | -                      | 574,936             |
| Net Loss                                | -                        | -           | -                 | -                | -                                | -  | (245,264)              | (245,264)           |
| Balance, April 30, 2018 (Unaudited)     | <u>1,000</u>             | <u>\$ 1</u> | <u>10,415,416</u> | <u>\$ 10,415</u> | <u>\$58,485,853</u>              | <u>\$ (1,463,495)</u>                                  | <u>\$(37,228,201)</u>  | <u>\$19,804,573</u> |

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Cash Flows**  
**For the Periods Indicated**  
**Unaudited**

|  | <b>Six Months Ended April 30,</b> |              |
|--|-----------------------------------|--------------|
|  | <b>2018</b>                       | <b>2017</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                   |              |
| Net (loss) income  | \$ (245,264)                      | \$ 2,846,926 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                   |              |
| Depreciation and amortization  | 396,056                           | 396,361      |
| Stock compensation   | 334,749                           | 10,500       |
| Realized gain on the sale of fixed assets  | -                                 | (21,076)     |
| (Increase) decrease in operating assets:   |                                   |              |
| Accounts receivable  | (701,896)                         | 611,806      |
| Inventory  | (347,914)                         | (43,731)     |
| Unbilled receivables   | 1,137,266                         | (782,358)    |
| Other current assets   | 213,085                           | (284,167)    |
| Prepaid expenses   | 27,925                            | (141,746)    |
| Deferred tax asset   | -                                 | 85,904       |
| Increase (decrease) in operating liabilities:  |                                   |              |
| Accounts payable and other current liabilities   | (468,259)                         | (40,190)     |
| Deferred revenues  | (103,033)                         | (136,671)    |
| Net Cash Provided by Operating Activities  | 242,715                           | 2,501,558    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                   |              |
| Purchases of property and equipment  | (521,594)                         | (2,350,566)  |
| Proceeds from the sale of fixed assets   | -                                 | 327,000      |
| Restricted cash  | -                                 | 13,695       |
| Net Cash (used in) Investing activities  | (521,594)                         | (2,009,871)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                   |              |
| Repayments - loans and notes payable   | (5,523,762)                       | (25,927)     |
| Issuance of stock for cash   | 5,312,732                         | -            |
| Redemption of Series C preferred stock   | -                                 | (1,100,000)  |
| Net Cash (used in) Financing Activities  | (211,029)                         | (1,125,927)  |
| <b>EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH</b>                                  |                                   |              |
|  | 574,936                           | 767,887      |
| <b>NET INCREASE IN CASH</b>  | 85,028                            | 133,647      |
| <b>CASH AT THE BEGINNING OF THE PERIOD</b>   | 6,851,539                         | 5,601,767    |
| <b>CASH AT THE END OF THE PERIOD</b>   | \$ 6,936,567                      | \$ 5,735,414 |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>  |                                   |              |
| Cash paid for interest   | \$ 160,861                        | \$ 397,091   |
| Non-cash transactions  |                                   |              |
| Preferred stock issued for accrued interest  | \$ -                              | \$ 1,000,000 |
| Payment of secured debt directly with proceeds of note payable                           | \$ -                              | \$ 8,000,000 |

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



**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**April 30, 2018 and 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared based upon U.S. Securities and Exchange Commission rules that permit reduced disclosure for interim periods. Therefore, they do not include all information and footnote disclosures necessary for a complete presentation of Coda Octopus Group, Inc.'s financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. Coda Octopus Group, Inc. (the Company, Coda Octopus," "we," or "us") filed audited consolidated financial statements as of and for the fiscal years ended October 31, 2017 and 2016 which included all information and notes necessary for such complete presentation in conjunction with its report on Form 10K filed on January 30, 2018 (the "Form 10-K"). The results of operations for the interim period ended April 30, 2018 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2017, which are contained in the Form 10-K. The accompanying unaudited interim consolidated financial statements contain all adjustments (consisting of normal recurring items) which are, in the opinion of management, necessary for a fair statement of the Company's financial position as of April 30, 2018 and the results of operations, comprehensive income and cash flows for the interim periods ended April 30, 2018 and 2017. The unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the US dollar as the reporting currency for financial reporting. The financial position and results of operations of the Company's UK-based operations are measured using the British Pound Sterling, Australian based operations are measured using Australian Dollars and Norwegian based operations are measured using Norwegian Kroner as the functional currencies. Foreign currency translation gains and losses are recorded as a change in other comprehensive income. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of our foreign operations are also included in other comprehensive income.

**NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's short term financial instruments consist of cash and cash equivalents, receivables, accounts payable and the line of credit. The Company adjusts the carrying value of financial assets and liabilities denominated in other currencies such as cash, receivables, accounts payable and the line of credit using the appropriate exchange rates at the balance sheet date. The Company believes that the carrying values of these short term financial instruments approximate their estimated fair values.

**NOTE 3 – FOREIGN CURRENCY TRANSLATION**

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of operations denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted average exchange rates during the period. The resulting translation gains and losses on assets and

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**April 30, 2018 and 2017**

NOTE 3 – FOREIGN CURRENCY TRANSLATION (Continued)

liabilities are recorded in accumulated other comprehensive income (loss), and are excluded from net income until realized through a sale or liquidation of the investment.

NOTE 4 – INVENTORY

Inventory is stated at the lower of cost (weighted average method) or net realized value. Inventory consisted of the following components:

|                         | <u>April 30, 2018</u> | <u>October 31, 2017</u> |
|-------------------------|-----------------------|-------------------------|
| Raw materials and parts | \$ 3,305,349          | \$ 2,651,511            |
| Work in progress        | 147,338               | 501,692                 |
| Demo goods              | -                     | 349,480                 |
| Finished goods          | 547,476               | 149,566                 |
| Total Inventory         | <u>\$ 4,000,163</u>   | <u>\$ 3,652,249</u>     |

NOTE 5 – OTHER CURRENT ASSETS

Other current assets consisted of the following components:

|                                  | <u>April 30, 2018</u> | <u>October 31, 2017</u> |
|----------------------------------|-----------------------|-------------------------|
| Deposits                         | \$ 4,860              | \$ 11,255               |
| Other receivables                | 44,638                | 73,600                  |
| Value added tax (VAT) receivable | 58,229                | 235,959                 |
| Total Other Current Assets       | <u>\$ 107,728</u>     | <u>\$ 320,814</u>       |

NOTE 6 – ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues including unbilled and deferred revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include costs and earnings in excess of billings, billings in excess of costs, valuation of accounts receivables, valuation of inventory, valuation of deferred tax assets (DTA's) and the valuation of goodwill.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**April 30, 2018 and 2017**

**NOTE 7 – 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 consolidated balance sheets as Unbilled Receivables of \$1,585,907 and \$2,723,172 as of April 30, 2018 and October 31, 2017, respectively.

Our Deferred Revenue of \$293,795 and \$402,955 as of April 30, 2018 and October 31, 2017, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations upon completing a sale – elaborated further in the last paragraph of this note.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheets. These amounts are stated on the balance sheets as a component of Deferred Revenue of \$0 as of April 30, 2018 and October 31, 2017, 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, and Through Life Support (which is a support package (for major software upgrades, service and technical support for the life cycle of the product) with these amounts amortized over 12 months, our stated warranty period, from the date of sale and 60 months for Through Life Support. These amounts are stated on the balance sheets as a component of Deferred Revenue of \$61,494 and \$76,574 as of April 30, 2018 and October 31, 2017, respectively.

**NOTE 8 – CONCENTRATIONS**

Significant Customers

During the three months ended April 30, 2018, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenues from these customers were \$1,325,531, or 38% of net revenues during the period. Total accounts receivable from these customers at April 30, 2018 were \$998,606 or 47% of accounts receivable.

During the three months ended April 30, 2017, the Company had a customer from whom it generated sales greater than 10% of net revenues. Revenues from this customer were \$1,016,784, or 19% of net revenues during the period. Total accounts receivable from this customer at April 30, 2017 was \$189,110 or 7% of accounts receivable.

During the six months ended April 30, 2018, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenues from these customers were \$1,612,490, or 25% of net revenues during the period. Total accounts receivable from these customers at April 30, 2018 were \$998,606 or 47% of accounts receivable.

During the six months ended April 30, 2017, the Company had a customer from whom it generated sales greater than 10% of net revenues. Revenues from these customers were \$2,853,925, or 27% of net revenues during the period. Total accounts receivable from this customer at April 30, 2017 was \$189,110 or 7% of accounts receivable.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**April 30, 2018 and 2017**

NOTE 9 – LOANS AND NOTES PAYABLE

|  | April 30, 2018 | October 31, 2017 |
|--|----------------|------------------|
| Secured note payable to HSBC NA with interest payable on the 28 <sup>th</sup> day of each month at 4.56% per annum. On March 28, 2018 the Company prepaid a portion of the outstanding principal and thereby reducing the principal outstanding under this loan to \$1,917,602 resulting in the repayment obligations (principal and interest payments) being reduced to \$43,777 per month. It is now expected that the Loan will be repaid within 44 months. There was no prepayment penalty associated with the reduction of principal. | \$ 1,755,591   | \$ 7,279,353     |
| One of the subsidiaries has an unsecured working capital loan from the CEO of the Group. The note is due on November 30, 2018 and carries an interest rate of 4.5%.  | 1,000,000      | 1,000,000        |
| Total  | 2,755,591      | 8,279,353        |
| Less: current portion  | (1,453,686)    | (2,212,951)      |
| Total Long-Term Loans and Notes Payable  | \$ 1,301,905   | \$ 6,066,402     |

We have an unused line of credit with HSBC UK to use specifically for bank guarantees. It is equivalent to \$455,000. As of April 30, 2018, the balance is \$0.

NOTE 10– ACCUMULATED OTHER COMPREHENSIVE INCOME

|  | April 30, 2018 | October 31, 2017 |
|--|----------------|------------------|
| Balance, beginning of year   | \$ (2,038,431) | \$ (2,337,437)   |
| Total other comprehensive income (loss) for the year - foreign currency translation adjustment | 574,936        | 299,006          |
| Balance, end of period   | \$ (1,463,495) | \$ (2,038,431)   |

NOTE 11 – RECENT ACCOUNTING PRONOUNCEMENTS

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. We have evaluated the effects of this updated standard and determined that it will not have a significant impact on our consolidated financial statements and related disclosures.

**CODA OCTOPUS GROUP, INC.**  
**Notes to the Consolidated Financial Statements**  
**April 30, 2018 and 2017**

NOTE 11– RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

On February 24, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. We have evaluated the effects of this updated standard and determined that it will not have a significant impact on our consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies various aspects related to the accounting and presentation of share-based payments. The amendments require entities to record all tax effects related to share-based payments at settlement or expiration through the income statement and the windfall tax benefit to be recorded when it arises, subject to normal valuation allowance considerations. All tax-related cash flows resulting from share-based payments are required to be reported as operating activities in the statement of cash flows. The updates relating to the income tax effects of the share-based payments including the cash flow presentation must be adopted either prospectively or retrospectively. Further, the amendments allow the entities to make an accounting policy election to either estimate forfeitures or recognize forfeitures as they occur. If an election is made, the change to recognize forfeitures as they occur must be adopted using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. We have implemented the pronouncement and have determined that it will not have a significant impact on our consolidated financial statements and related disclosures.

With the exception of the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to our Consolidated Financial Statements.

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**Notes to the Consolidated Financial Statements**  
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NOTE 12 – EARNINGS PER COMMON SHARE

| Fiscal Period                                    | Three Months<br>Ended<br>April 30, 2018 | Three Months<br>Ended<br>April 30, 2017 | Six Months Ended<br>April 30, 2018 | Six Months Ended<br>April 30, 2017 |
|--|---|---|------------------------------------|------------------------------------|
| <b>Numerator:</b>                                |   |   |                                    |                                    |
| Net (Loss) Income                                | \$ (77,325)                             | \$ 1,274,964                            | \$ (245,264)                       | \$ 2,846,926                       |
| <b>Denominator:</b>                              |   |   |                                    |                                    |
| Basic weighted average common shares outstanding | 10,353,876                              | 9,102,192                               | 9,754,033                          | 9,101,837                          |
| Conversion of Series C Preferred Stock           | 0                                       | 200,000                                 | 0                                  | 200,000                            |
| Diluted outstanding shares                       | 10,353,876                              | 9,302,192                               | 9,754,033                          | 9,301,837                          |
| <b>Earnings from continuing operations</b>       |   |   |                                    |                                    |
| Basic  | \$ (0.01)                               | \$ 0.14                                 | \$ (0.03)                          | \$ 0.31                            |
| Diluted  | \$ (0.01)                               | \$ 0.14                                 | \$ (0.03)                          | \$ 0.31                            |

Common stock equivalents of 200,000 shares were excluded from the April 30, 2018, computation as their effect would be anti-dilutive.

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NOTE 13 – SEGMENT ANALYSIS

We are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations. Coda Octopus Martech and Coda Octopus Colmek (together “Marine Engineering Business” or “Services Segment”) operate as contractors, and the balance of our operations are comprised of product sales (“Marine Technology Business” or “Products Segment”).

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

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies in our Consolidated Financial Statements of October 31, 2017.

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

The following table summarizes segment asset and operating balances by reportable segment as of and for the three and six months ended April 30, 2018 and 2017 respectively.

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

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

Information concerning principal geographic areas is presented below according to the area where the activity has taken place for the three months ended April 30, 2018 and 2017 respectively:

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**April 30, 2018 and 2017**

NOTE 13 – SEGMENT ANALYSIS (continued)

|   | <b>Marine<br/>Technology<br/>Business<br/>(Products)</b> | <b>Marine<br/>Engineering<br/>Business<br/>(Services)</b> | <b>Overhead</b>     | <b>Total</b>       |
|---|--|---|---------------------|--------------------|
| <b>Three Months Ended April 30, 2018</b>                          |  |   |                     |                    |
| Revenues from External Customers                                  | \$ 2,173,291   | \$ 1,353,105  | \$ -                | \$ 3,526,396       |
| Cost of Revenues  | <u>217,222</u>   | <u>723,636</u>  | <u>-</u>            | <u>940,858</u>     |
| <b>Gross Profit</b>   | 1,956,069  | 629,469   | -                   | 2,585,538          |
| Research & Development  | 503,518  | 136,959   | -                   | 640,477            |
| Selling, General & Administrative                                 | <u>850,521</u>   | <u>614,718</u>  | <u>560,391</u>      | <u>2,025,630</u>   |
| <b>Total Operating Expenses</b>                                   | 1,354,039  | 751,677   | 560,391             | 2,666,107          |
| <b>Operating Income (Loss)</b>                                    | 602,030  | (122,208)   | (560,391)           | (80,569)           |
| <b>Other Income (Expense)</b>                                     |  |   |                     |                    |
| Other Income  | 81,918   | 2,097   | -                   | 84,015             |
| Interest Expense  | <u>(2,385)</u>   | <u>(14,752)</u>   | <u>(63,604)</u>     | <u>(80,741)</u>    |
| <b>Total other income (expense)</b>                               | <u>79,533</u>  | <u>(12,655)</u>   | <u>(63,604)</u>     | <u>3,274</u>       |
| Income (Loss) before income taxes                                 | 681,563  | (134,863)   | (623,995)           | (77,295)           |
| Income tax benefit (expense)                                      | <u>(6,431)</u>   | <u>-</u>  | <u>6,401</u>        | <u>(30)</u>        |
| <b>Net Income (Loss)</b>  | <u>\$ 675,132</u>  | <u>\$ (134,863)</u>                                       | <u>\$ (617,594)</u> | <u>\$ (77,325)</u> |
| <b>Supplemental Disclosures</b>                                   |  |   |                     |                    |
| Total Assets  | \$ 12,655,196  | \$ 10,944,045   | \$ 342,932          | \$ 23,942,173      |
| Total Liabilities   | 763,339  | 1,435,771   | 1,938,490           | 4,137,600          |
| Revenues from Intercompany Sales - eliminated<br>from sales above | 315,954  | 132,837   | 675,000             | 1,123,791          |
| Depreciation and Amortization                                     | 113,923  | 72,499  | 4,255               | 190,677            |
| Purchases of Long-lived Assets                                    | 52,112   | 6,056   | 24,785              | 82,953             |



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**April 30, 2018 and 2017**

NOTE 13 – SEGMENT ANALYSIS (continued)

|   | <b>Marine<br/>Technology<br/>Business<br/>(Products)</b> | <b>Marine<br/>Engineering<br/>Business<br/>(Services)</b> | <b>Overhead</b>    | <b>Total</b>        |
|---|--|---|--------------------|---------------------|
| <b>Three Months Ended April 30, 2017</b>                          |  |   |                    |                     |
| Revenues from External Customers                                  | \$ 3,299,545   | \$ 1,979,213  | \$ -               | \$ 5,278,758        |
| Cost of Revenues  | <u>968,908</u>   | <u>1,045,032</u>  | <u>-</u>           | <u>2,013,940</u>    |
| <b>Gross Profit</b>   | 2,330,637  | 934,181   | -                  | 3,264,818           |
| Research & Development  | 247,758  | -   | -                  | 247,758             |
| Selling, General & Administrative                                 | <u>830,121</u>   | <u>655,560</u>  | <u>154,211</u>     | <u>1,639,892</u>    |
| <b>Total Operating Expenses</b>                                   | 1,077,879  | 655,560   | 154,211            | 1,887,650           |
| <b>Operating Income (Loss)</b>                                    | 1,252,758  | 278,621   | (154,211)          | 1,377,168           |
| <b>Other Income (Expense)</b>                                     |  |   |                    |                     |
| Other Income  | 86,643   | -   | -                  | 86,643              |
| Interest Expense  | <u>(181,806)</u>   | <u>(75,001)</u>   | <u>67,960</u>      | <u>(188,847)</u>    |
| <b>Total other income (expense)</b>                               | <u>(95,163)</u>  | <u>(75,001)</u>   | <u>67,960</u>      | <u>(102,204)</u>    |
| Income (Loss) before income taxes                                 | 1,157,595  | 203,620   | (86,251)           | 1,274,964           |
| Income tax benefit (expense)                                      | <u>-</u>   | <u>-</u>  | <u>-</u>           | <u>-</u>            |
| <b>Net Income (Loss)</b>  | <u>\$ 1,157,595</u>                                      | <u>\$ 203,620</u>   | <u>\$ (86,251)</u> | <u>\$ 1,274,964</u> |
| <b>Supplemental Disclosures</b>                                   |  |   |                    |                     |
| Total Assets  | \$ 12,119,417  | \$ 12,616,569   | \$ 422,059         | \$ 25,158,045       |
| Total Liabilities   | 1,223,741  | 1,654,104   | 8,600,374          | 11,478,219          |
| Revenues from Intercompany Sales - eliminated<br>from sales above | 505,660  | 170,056   | 118,875            | 794,591             |
| Depreciation and Amortization                                     | 145,800  | 71,056  | 3,106              | 219,962             |
| Purchases of Long-lived Assets                                    | 643,603  | 26,852  | -                  | 670,455             |

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NOTE 13 – SEGMENT ANALYSIS (continued)

|  | <b>Marine<br/>Technology<br/>Business<br/>(Products)</b> | <b>Marine<br/>Engineering<br/>Business<br/>(Services)</b> | <b>Overhead</b>     | <b>Total</b>        |
|--|--|---|---------------------|---------------------|
| <b>Six Months Ended April 30, 2018</b>                         |  |   |                     |                     |
| Revenues from External Customers                               | \$ 4,216,233   | \$ 2,360,720  | \$ -                | \$ 6,576,953        |
| Cost of Revenues   | <u>647,353</u>   | <u>1,239,612</u>  | <u>-</u>            | <u>1,886,965</u>    |
| <b>Gross Profit</b>  | 3,568,880  | 1,121,108   | -                   | 4,689,988           |
| Research & Development   | 945,792  | 365,224   | -                   | 1,311,016           |
| Selling, General & Administrative                              | <u>1,428,086</u>   | <u>1,245,592</u>  | <u>857,709</u>      | <u>3,531,387</u>    |
| <b>Total Operating Expenses</b>                                | 2,373,878  | 1,610,816   | 857,709             | 4,842,403           |
| <b>Operating Income (Loss)</b>                                 | 1,195,002  | (489,708)   | (857,709)           | (152,415)           |
| <b>Other Income (Expense)</b>                                  |  |   |                     |                     |
| Other Income   | 88,573   | 2,097   | -                   | 90,670              |
| Interest (Expense) Income                                      | <u>(6,804)</u>   | <u>(29,701)</u>   | <u>(146,984)</u>    | <u>(183,489)</u>    |
| <b>Total other income (expense)</b>                            | <u>81,769</u>  | <u>(27,604)</u>   | <u>(146,984)</u>    | <u>(92,819)</u>     |
| Income (Loss) before income taxes                              | 1,276,771  | (517,312)   | (1,004,693)         | (245,234)           |
| Income tax benefit (expense)                                   | <u>(6,596)</u>   | <u>-</u>  | <u>6,566</u>        | <u>(30)</u>         |
| <b>Net Income (Loss)</b>                                       | <u>\$ 1,270,175</u>                                      | <u>\$ (517,312)</u>                                       | <u>\$ (998,127)</u> | <u>\$ (245,264)</u> |
| <b>Supplemental Disclosures</b>                                |  |   |                     |                     |
| Total Assets   | \$ 12,455,194  | \$ 10,944,045   | \$ 342,932          | \$ 23,942,173       |
| Total Liabilities  | 760,320  | 1,438,790   | 1,938,490           | 4,137,600           |
| Revenues from Intercompany Sales - eliminated from sales above | 471,218  | 10,189  | 675,000             | 1,156,407           |
| Depreciation and Amortization                                  | 236,650  | 152,214   | 7,192               | 396,056             |
| Purchases of Long-lived Assets                                 | 254,029  | 49,961  | 24,785              | 328,775             |

**CODA OCTOPUS GROUP, INC.**  
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NOTE 13 – SEGMENT ANALYSIS (continued)

|  | <b>Marine<br/>Technology<br/>Business<br/>(Products)</b> | <b>Marine<br/>Engineering<br/>Business<br/>(Services)</b> | <b>Overhead</b>  | <b>Total</b>        |
|--|--|---|------------------|---------------------|
| <b>Six Months Ended April 30, 2017</b>                         |  |   |                  |                     |
| Revenues from External Customers                               | \$ 5,750,144   | \$ 4,886,817  | \$ -             | \$ 10,636,961       |
| Cost of Revenues   | <u>1,698,926</u>   | <u>2,298,059</u>  | <u>-</u>         | <u>3,996,985</u>    |
| <b>Gross Profit</b>  | 4,051,218  | 2,588,758   | -                | 6,639,976           |
| Research & Development   | 498,988  | -   | -                | 498,988             |
| Selling, General & Administrative                              | <u>1,404,770</u>   | <u>1,341,971</u>  | <u>299,039</u>   | <u>3,045,780</u>    |
| <b>Total Operating Expenses</b>                                | 1,903,758  | 1,341,971   | 299,039          | 3,544,768           |
| <b>Operating Income (Loss)</b>                                 | 2,147,460  | 1,246,787   | (299,039)        | 3,095,208           |
| <b>Other Income (Expense)</b>                                  |  |   |                  |                     |
| Other Income   | 136,059  | -   | -                | 136,059             |
| Interest Expense   | <u>(532,141)</u>   | <u>(199,223)</u>  | <u>347,023</u>   | <u>(384,341)</u>    |
| <b>Total other income (expense)</b>                            | <u>(396,082)</u>   | <u>(199,223)</u>  | <u>347,023</u>   | <u>(248,282)</u>    |
| Income before income taxes                                     | 1,751,378  | 1,047,564   | 47,984           | 2,846,926           |
| Income tax benefit (expense)                                   | <u>-</u>   | <u>-</u>  | <u>-</u>         | <u>-</u>            |
| <b>Net Income</b>  | <u>\$ 1,751,378</u>                                      | <u>\$ 1,047,564</u>                                       | <u>\$ 47,984</u> | <u>\$ 2,846,926</u> |
| <b>Supplemental Disclosures</b>                                |  |   |                  |                     |
| Total Assets   | \$ 12,119,417  | \$ 12,616,569   | \$ 422,059       | \$ 25,158,045       |
| Total Liabilities  | 1,223,741  | 1,654,104   | 8,600,374        | 11,478,219          |
| Revenues from Intercompany Sales - eliminated from sales above | 678,513  | 229,955   | 237,750          | 1,146,218           |
| Depreciation and Amortization                                  | 247,263  | 142,781   | 6,317            | 396,361             |
| Purchases of Long-lived Assets                                 | 2,289,063  | 49,033  | 12,470           | 2,350,566           |

**CODA OCTOPUS GROUP, INC.**  
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NOTE 13 – SEGMENT ANALYSIS (continued)

|  | USA          | Europe       | Australia  | Total         |
|--|--------------|--------------|------------|---------------|
| <b>External Revenues by Geographic Locations</b> |              |              |            |               |
| Three Months Ended April 30, 2018                | \$ 1,934,365 | \$ 1,476,668 | \$ 115,363 | \$ 3,526,396  |
| Three Months Ended April 30, 2017                | \$ 2,525,908 | \$ 2,614,897 | \$ 137,953 | \$ 5,278,758  |
| Six Months Ended April 30, 2018                  | \$ 3,021,991 | \$ 3,298,704 | \$ 256,258 | \$ 6,576,953  |
| Six Months Ended April 30, 2017                  | \$ 5,275,675 | \$ 4,631,934 | \$ 729,352 | \$ 10,636,961 |

NOTE 14 – INCOME TAXES

On December 22, 2017, the US Congress passed the Tax Cuts and Jobs Act, which reduced the corporate tax rate from 39% to 21%. This change would reduce the deferred tax asset, from \$4,270,500 to \$2,299,500 as of October 31, 2017. The Company has provided a full valuation allowance against the deferred tax asset. This tax law change will not impact these financial statements. However, should our deferred tax asset reverse we will not recognize benefits in the amount previously expected.

NOTE 15 – SUBSEQUENT EVENTS

None

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

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

The following discussion and analysis should be read in conjunction with our financial statements, included herewith and the audited financial statements included in our Form 10-K filed with the Securities and Exchange Commission on January 30, 2018. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

### General Overview

Throughout these discussions, the following terminologies listed in the table immediately below are used and have the meanings ascribed to them in the said table.

|                                      |   |
|--------------------------------------|---|
| “ <i>Current Quarter</i> ”           | The three month period ended April 30, 2018 |
| “ <i>Previous Quarter</i> ”          | The three month period ended April 30, 2017 |
| “ <i>Current Six Month Period</i> ”  | The six month period ended April 30, 2018   |
| “ <i>Previous Six Month Period</i> ” | The six month period ended April 30, 2017   |

We operate two distinct business segments. Our Products Segment designs and manufactures patented real time 3D sonar solutions and other leading products for subsea applications (“Products Segment”). Our Services Segment supplies engineering services to prime defense contractors (“Services Segment”).

Our products are used primarily in the underwater construction market, offshore oil and gas, offshore wind energy industry, and in the complex dredging, port security, defense, mining and marine sciences sectors. Our customers include service providers to major oil and gas companies, law enforcement agencies, ports, mining companies, defense bodies, research institutes and universities.

Our Services segment supplies engineering services mainly to prime defense contractors such as Raytheon and Northrop Grumman. We have long-standing relationships with prime defense contractors. We support some significant defense programs by supplying and maintaining proprietary parts through obsolescence management programs. These services provide recurring stream of revenues for our Services segment.

Both Segments’ revenues declined in the Current Six Month Period compared to the Previous Six Month Period. This decline in conjunction with significant increases in SG&A (which includes on a consolidated year to date basis non-recurring costs of \$546,975) and R&D expenditures, have resulted in the realization of a net loss in the Current Six Month Period of \$245,264 compared to net income in the Previous Six Month of \$2,846,926.

|                  |   |
|------------------|---|
| Products Segment | In the Current Quarter, this segment generated 62% of our overall revenues realized in the quarter                            |
| Products Segment | In the Current Six Month Period, this segment generated 64% of our overall revenues realized in the six month period of 2018. |
| Services Segment | In the Current Quarter, this segment generated 38% of our overall revenues realized in the quarter                            |
| Services Segment | In the Current Six Month Period, this segment generated 36% of our overall revenues realized in the six month period of 2018. |

In the Current Quarter, revenues declined in the Services Segment compared to the Previous Quarter due to ongoing delays experienced in securing defense contracts. This is primarily the result of the failure by the US administration to approve its government budget. Although the US Defense Budget is now in place, the Services Segment is currently negotiating a number of contracts with defense customers which relate to backlog orders for calendar years 2017 and 2018. Until the negotiations are completed, the contracts will not be awarded. We anticipate some of these contracts to be in place in the third quarter of this fiscal year. Although our backlog of orders is set to grow, we expect our revenues from the Services Segment to be weak in this fiscal year. This is a reflection of the lead time to fulfil orders from contract award date. The lead time for many of the parts required under these contracts range between 18-32 weeks from the date we place orders with our component suppliers. Despite the setback in achieving our business plan year to date, we continue to believe that the Services Segment of our business is set to grow at a faster rate than the Products Segment in the short term.

During the Current Quarter revenues also declined in the Products Segment compared to the Previous Quarter largely because the biggest trade show for the industry in which we operate was held in March 2018 (“Oceanology 2018”). It is our experience that leading up to this trade show (which is held every two years), in the first and second quarter, our customers do not place orders as they are waiting to see if “new products and technology” are unveiled at the trade show.

Despite the weak performance of our Products Segment in the Current Quarter, we continue to believe that our unique and patented real time 3D solutions are a significant advancement on the other technology available in the subsea sonar imaging market due to its ability to provide real time volumetric data of underwater targets in low or zero visibility conditions and its capability to image moving objects in the subsea environment. Furthermore, because the technology provides real time imaging of the underwater environment, it enhances the safety of these operations significantly and delivers substantial productivity gains to our customers, thus reducing their costs.

In addition, our real time 3D solution is emerging as the preferred solutions for subsea asset placements because of the technology’s unique ability to image underwater moving targets (such as Accropodes™, X-Blocs and Antifers block placements, mattress placements, landing of installations on the seabed and the like). Due to the decline in the price of oil, many Oil and Gas (“O&G”) companies are seeking cost effective solutions for their operations. We believe that our real time 3D solution has the potential to revolutionize the technology used in underwater operations particularly where real time visualization is required or zero or low visibility conditions prevail.

We also believe that with the proliferation of underwater drones our technology has significant application for the imaging sonar defense market (which generates billions of dollars annually) as it is the only available off the shelf technology that can image moving targets (such as underwater vehicles) in the water.

Since introducing our patented real time 3D sonar product, we have made progress in getting this technology, (branded Echoscope®) adopted by a significant number of ports in the USA (the CodaOctopus® Underwater Inspection System (which integrates our Echoscope®, our motion sensing product and a hydrographic pole) where it is used for port and harbor security. In addition to the successes we have had in the USA with our Underwater Inspection System, in 2015 we secured the first sale of our Underwater Inspection System to a foreign government body in East Asia and in 2016 we sold two additional systems to this body. We anticipate selling additional systems into this government body as part of their technology upgrade program for the next three years. Furthermore, we continue to increase the number of ports in the USA using this system and in fiscal year 2018 we have sold an additional Underwater Inspection System to a significant port on the west coast of the USA for a contract value of \$664,765.

We have also made progress in expanding the markets (and applications) for our real time 3D sonars. Recently, we have sold a number of systems to mining companies. Increasingly, our customers involved in offshore wind energy and renewables are adopting the technology as the primary tool for scour management, subsea cable installation and associated cable protection tasks.

In addition, in recent years we have started to rent our real time 3D solutions together with engineering services. Given the contraction in capital expenditures budget in the O&G market, rentals are increasingly becoming an important part of the composition of the Company’s revenues as these O&G operators are more prepared to utilize operational budgets (as opposed to capital expenditures budgets). Furthermore, our rental offering generally yields a higher gross margin for the Company.

The re-innovation of the form factor (size, weight and power requirements (SWaP)) of our new generation (fourth generation) of our real time 3D sonar technology, now paves the way for entry into new markets where previous to these developments SWaP and price were significant barriers to entry.

Our business is affected by a number of factors including those set out below:

- A. The Company's operations are split between the United States, United Kingdom and Australia. A large proportion of our revenues (approximately 45% in the Current Quarter and 54% in the Current Six Month Period) and costs are incurred outside of the USA with a significant part (42% of our total revenues in the Current Quarter and 50% in the Current Six Month Period) in the United Kingdom ("UK"). In addition, a significant part of our assets (both current and fixed) are held in British Pounds by our foreign subsidiaries. The volatility in the exchange rate following the decision on Brexit (see below) exposes the Company to exchange rate fluctuations.
- B. On June 23, 2016, the United Kingdom voted to exit the European Union. This resulted in, amongst other things, significant currency exchange rate fluctuations and volatility in global stock markets including a sharp fall of the British Pound against the US Dollar and general uncertainty in the economy. The British government and the European Union are now negotiating the terms of the United Kingdom's exit from the European Union (so-called "Brexit"). The United Kingdom's separation could, among other things, disrupt trade and the free movement of goods, services and people between the United Kingdom and the European Union or other countries as well as create legal and global economic uncertainty. Although the British Pound has strengthened against the US Dollar recently, it is likely to remain volatile until the outcome of the European Union negotiations on key areas which are the subject of these negotiations is clearer.
- C. Given the lack of comparable precedent, the implications of Brexit or how such implications might affect the Company in the medium to long term are unclear.

Further areas of impact include:

- i. the price of commodities, in particular O&G. The decline in O&G prices since 2014 with a partial recovery since 2016 has resulted in large scale reductions in capital and operational expenditures, which directly impact on the sales of our products into these and related markets and also our gross margins. Even though the price is rising, we have not seen the same level of expenditures from this sector since 2014;
- ii. the allocation of funds to defense procurement by governments in the United States and the United Kingdom;
- iii. approximately 42% of the Company's revenues in the Current Quarter and 50% in the Current Six Month Period are transacted and generated in British Pounds by the Company's subsidiaries in the United Kingdom and therefore we have a currency exposure. The depreciation of the British Pound against major currencies adversely impacts our revenues as a whole which are reported in U.S. Dollars. Furthermore, a large part of our assets is held in British Pounds while the majority of our liabilities (which comprise our senior secured debentures – see Note 9 of the unaudited Consolidated Financial Statements) are maintained in U.S. Dollars. In the Current Quarter as compared to the Previous Quarter, we realized a balance sheet gain on our assets due to an appreciation of the British Pound against the US Dollar prevailing at the balance sheet date of April 30, 2018. In the Current Quarter compared to the Previous Quarter, we also realized a modest loss on exchange rate translations in respect of revenues and expenses (which are translated at the weighted average exchange rates during the period. See Note 3 of the unaudited Consolidated Financial Statements for more information on our Foreign Currency Translation policy.
- iv. global-political uncertainties affecting the markets into which we sell our goods and services;
- v. global trends which make certain geographical regions more competitive in providing engineering solutions because of lower labor costs (e.g. India and China) are likely to affect our Engineering Businesses in the Group;
- vi. being a small technology company, we are unable to compete for certain specialized electronic engineering skills as our remuneration package is not as competitive as those offered by bigger companies;

- vii. the Company has issued and outstanding a promissory note (See Note 9 of the unaudited Consolidated Financial Statements April 30, 2018 and 2017). This note is secured by all of the Company's assets in the USA and is also guaranteed by its overseas subsidiaries (although on or around March 28, 2018 we reduced the principal amount outstanding with HSBC NA to \$1,917,602, which is more manageable for the Company to service);
- viii we lack the financial resources to advance our flagship technology at the commercially appropriate pace required to capture new markets and increase our sales which could facilitate new entrants to the market. For example, Teledyne Technologies Incorporated, a multi-billion company, has recently acquired a number of subsea companies that may speed up their entry into our market;
- ix a significant part of our growth strategy is predicated on our patented real time 3D sonar technology. The technology space is inherently uncertain due to the fast pace of innovations and therefore we can give no assurance that we can maintain our leading position in the real time 3D imaging sonar market or that innovations in other areas may not surpass our unique capability that we currently supply to subsea market.

### **Critical Accounting Policies**

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with US GAAP requires our management to make estimates and assumptions that affect the reported values of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported levels of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Below is a discussion of accounting policies that we consider critical to an understanding of our financial condition and operating results and that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, "Summary of Accounting Policies" of our Consolidated Financial Statements of October 31, 2017.

#### *Revenue Recognition*

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

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

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

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

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



Rental Revenue is recognized monthly over the term of the rental period.

#### *Recoverability of Deferred Costs*

We defer costs on projects for service revenue. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs in accordance with our revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs, to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

#### *Stock Based Compensation*

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

#### *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 various accelerated and modified accelerated cost recovery system for income tax purposes versus straight line depreciation used for book purposes and from the utilization of net operating loss carry-forwards.

Deferred tax assets and liabilities are the amounts by which the Company's future income taxes are expected to be impacted by these differences as they reverse. Deferred tax assets are based on differences that are expected to decrease future income taxes as they reverse. Correspondingly, deferred tax liabilities are based on differences that are expected to increase future income taxes as they reverse. Note 7 to the Consolidated Financial Statements at October 31, 2017 discusses the amounts of deferred tax assets and liabilities, and also presents the impact of significant differences between financial reporting income and taxable income.

On December 22, 2017, the US Congress passed the Tax Cuts and Jobs Act, which reduced the corporate tax rate from 39% to 21%. This change would reduce the deferred tax asset, from \$4,270,500 to \$2,299,500 as of October 31, 2017. The Company has provided full valuation allowance against the deferred tax asset. There will not be an impact to these financial statements because of this tax law change. However, should our deferred tax asset reverse we will not recognize benefits in the amounts previously expected.

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.

#### *Intangible Assets*

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

The 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 quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized if any. 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. There were no impairment charges during the periods presented.

### **Consolidated Results of Operations**

We operate two distinct business segments. Our Marine Technology Business designs and manufactures patented real time 3D sonar solutions and other leading products for subsea applications (“Products Segment”). Our Marine Engineering Business supplies engineering services mostly to prime defense contractors (“Services Segment”).

Our Products Segment sells its products and associated services to the offshore wind energy, dredging and marine construction, marine and port security, mining including deep sea mining, marine sciences sector and oil and gas sectors. This segment generated approximately 62% and 63% of our total revenues for the Current and Previous Quarter, respectively, and 64% and 54% of our total revenues for the Current Six Month Period and Previous Six Month Period respectively.

Our Services Segment largely sells its services into prime and sub-prime defense contractors. This segment generated approximately 38% and 37% of our total revenues for the Current and Previous Quarter, respectively, and 36% and 46% of our total revenues for the Current Six Month Period and Previous Six Month Period, respectively. This segment continues to be an important part of the Group’s revenues plan and, in particular, our subsidiary Coda Octopus Colmek.

Overall our financial results in the Current Quarter were down compared to the Previous Quarter due to a combination of factors. The Services Segment revenues were significantly down in the Current Quarter due to delays in receiving anticipated defense contracts due to the delay in the new Administration approving the federal budget and although the budget and line item appropriations have now been approved, this Segment is now in the negotiation phase with its customers for the backlog orders related to calendar years 2017 and 2018. The Services Segment revenues declined by 32% in the Current Quarter compared to the Previous Quarter. Consequently, net income from this Segment fell from \$203,620 to a loss of \$134,863. The Products Segment revenues also declined in the Current Quarter by 34% over the Previous Quarter and net income realized by this segment was \$675,132 compared to \$1,157,595 in the Previous Quarter. The decline in the revenues generated by the Products Segment is due to the fact that the largest trade event for the industry occurred in March 2018, (“Oceanology 2018”) resulting in customers waiting until after the trade event to take purchasing/investing decisions. This resulted in a slow-down of our order take in both first and second quarter of this fiscal year. This decline was coupled with an increase in our Research and Development (“R&D”) expenditures and certain non-recurring costs within our SG&A expenditures have impacted our results. The Products Segment had exceptional costs of \$159,218 in separation payment associated with our Australian Operations (where we will focus our efforts on technical support in country and repatriate sales to our existing sales team in Edinburgh) along with an additional \$75,258 for exhibition, recruitment fees, advertisement and legal fees for immigration services (for staff recruited outside of the European Union). Overall, the Products Segment had one-off non-recurring costs of \$234,476, thus impacting on net income from this Segment.

### **Results of Operations for the Current Quarter compared to the Previous Quarter**

**Revenue:** Total revenues for the Current Quarter and the Previous Quarter were \$3,526,396 and \$5,278,758, respectively, representing a decrease of 33.2%. The Products Segment generated 62% of overall revenues and the Services Segment generated 38% in the Current Quarter.

The decrease in Revenues in the Current Quarter is largely due to the decline in the revenues generated by both our business segments.

The Services Segment revenues and consequently overall performance in the Current Quarter was impacted by the delay in the approval of the US Defense Budget. Although this and the line item appropriations have now been approved, we are in the process of negotiating the backlog orders with the various defense contractors. Revenues in the Services Segment declined by 32% in the Current Quarter compared to the Previous Quarter.

The Product Segment revenues and consequently overall performance in the Current Quarter was adversely affected by our industry's biggest trade event, Oceanology 2018, being convened in March 2018. Customers generally do not place orders before the trade event is held and our order take for both first and second quarter for this segment was down compared to the Previous Quarter. Revenues in the Products Segment declined by 34% in the Current Quarter compared to the Previous Quarter.

**Gross Margins:** Margin percentage was stronger in the Current Quarter at 73.3% (gross profit of \$2,585,538) compared to 61.8% (gross profit \$3,264,818) in the Previous Quarter. This increase is a reflection of the mix of sales generated in the Current Quarter with more units of rentals sales (as opposed to outright sales) from the Products Segment, which generates a higher gross profit. Further information on the performance of each Segment can be found in Note 13 to the Unaudited Consolidated Financial Statements above.

**Research and Development (R&D).** R&D expenditures in the Current Quarter were \$640,477 compared to \$247,758 in the Previous Quarter representing an increase of 158.5%. This is in line with our budgetary plans for the fiscal year 2018 and is a reflection of the investments we are making across both segments of our business. The Products Segment continues to invest in the new generation of products (including in our fourth generation (4G) of our real time 3D sonar technology, the new generation of our F180<sup>®</sup> (new F280<sup>®</sup> series) and our geophysical software products where we are imminently launching our first product based on "deep learning/machine learning" techniques. Whereas, the Services Segment is investing R&D resources in refreshing the Thermite<sup>®</sup> product it acquired in June 2014 and which is a significant part of its growth plans. Thermite<sup>®</sup> is a ruggedized mission computer with variants which are man worn, backpack worn and simultaneously integrated in the soldier's helmet and in defense systems such as air-borne drones. The next generation of Thermite<sup>®</sup> (now the Thermite<sup>®</sup> Octal) is at the prototype stage and is with a significant customer for trials and assessments.

Both the Products Segment and Services Segment R&D expenditures increased in the Current Quarter compared to the Previous Quarter.

| Description   | Amount     | % increase/decrease |
|---|------------|---------------------|
| Services Segment R&D Expenditures in the Current Quarter  | \$ 136,959 | -                   |
| Services Segment R&D Expenditures in the Previous Quarter | Nil        |                     |
| Products Segment R&D Expenditures in the Current Quarter  | \$ 503,518 | 103.2%              |
| Products Segment R&D Expenditures in the Previous Quarter | \$ 247,758 |                     |

**Selling, General and Administrative Expenses (SG&A).** SG&A expenditures for the Current Quarter increased to \$2,025,630 from \$1,639,892 in the Previous Quarter representing an increase of 23.5%. In addition to the new costs associated with our SEC reporting, NASDAQ listing, increased professional fees relating to these activities and increase in the costs of our Directors and Officers insurance, we had \$539,475 of non-recurring costs comprising \$159,218 in separation payments associated with reorganizing our Australian Operations (where we will focus our efforts on technical support in country and repatriate sales to our existing sales team in Edinburgh), along with an additional \$75,258 for exhibition, recruitment fees, advertisement and legal fees for immigration services (for staff recruited outside of the European Union), exceptional costs associated with preparing and filing Form S-3 pursuant to the terms of private placement transaction completed in January 2018 of \$27,500 and \$277,499 in stock compensation to a former officer of the Company pursuant to the terms of a settlement agreement entered into in 2011. Without these exceptional and non-recurring costs our SG&A would be \$1,486,155 (a decrease of 9.4%) over the Previous Quarter.

Key Areas of SG&A Expenditure across the Group for the Current Quarter compared to the Previous Quarter are:

| Expenditure   | April 30, 2018 | April 30, 2017 | Percentage Change |
|---|----------------|----------------|-------------------|
| Wages and Salaries  | \$ 875,522     | \$ 826,034     | Increase of 6.0%  |
| Legal and Professional Fees (including accounting, audit and investment banking services) | \$ 229,087     | \$ 231,790     | Decrease of 1.2%  |
| Rent for our various locations  | \$ 12,444      | \$ 16,496      | Decrease of 24.6% |
| Marketing   | \$ 70,507      | \$ 61,554      | Increase of 14.5% |

The category of Wages and Salaries expenditures includes \$159,218 of non-recurring separation payments associated with re-organizing our resources in our Australian subsidiary.

The category of Legal and Professional Fees include a non-recurring amount of \$27,500 which reflect fees paid for preparing and filing Form S-3 pursuant to the terms of private placement transaction concluded in January 2018.

The decrease in our rent expenses is due to most of our subsidiaries now residing in owned property. We are also re-rationalizing the allocation of our costs to fund our Research and Development activities. As such, we will cease renting office space in Australia from May 2018 and Norway from April 2018 but there will be one-off costs associated with surrendering these premises.

The increase in our Marketing expenditures is a reflection of participation in the industry's biggest trade show ("Oceanology 2018). This category does not include salary that is paid to our full time Marketing Executive.

In general, we are re-rationalizing our costs bases and re-allocating expenditures associated with some activities to R&D expenditures. For example, we have re-allocated sales resources from Australia to our existing sales team in Edinburgh, Scotland and although this involves incurring one-off separation costs of \$159,218 this and other re-rationalization activities will ensure that we maintain our SG&A expenditures at a financially viable level and at the same time fund to a reasonable level our research and developments efforts.

**Operating Income (loss).** We realized a loss from our operating activities in the Current Quarter of \$80,569 as compared to an operating income of \$1,377,168 in the Previous Quarter. This decrease is due to the decline in our revenues generated by both our operating segments in the Current Quarter in conjunction with an increase in both our Research & Development and Selling & General Administrative expenditures.

**Interest Expense.** Interest expense decreased by 57.2% in the Current Quarter to \$80,741 from \$188,847 in the Previous Quarter. This is due to:

- lower interest payments on our current Senior Loan with HSBC Bank NA than on the previous secured debentures which existed in the Previous Quarter (and now fully redeemed); and
- reduction of the Principal Amount on the said HSBC Bank Senior Loan on or around March 28, 2018 from \$6,789,736 to now \$1,755,591. Please refer to Note 9 – Loans and Notes Payable to the Unaudited Consolidated Financial Statements for further details pertaining to this HSBC Loan for more information on this.

**Other Income.** In the Current Quarter, we had Other Income of \$84,015 as compared to \$86,643 in the Previous Quarter resulting in a decrease of 3.0%. This category is subject to fluctuations as it usually reflects Value Added Tax rebates from purchases made outside of the European Union by our UK operations and therefore changes according to the level of such purchases.

**Net Income.** In the Current Quarter, we had a net loss of \$77,325 as compared to net income of \$1,274,964 in the Previous Quarter. This is attributable to the decrease in our overall revenues in conjunction with significant increases in key areas of expenditures (Research & Development and Selling and General Administrative).

**Comprehensive Income.** In the Current Quarter, our Comprehensive Loss was \$458,326 compared to a Comprehensive Income of \$1,621,691 in the Previous Quarter. The decrease is a reflection of the loss on our operations realized in the Current Quarter. In Comprehensive Income was also included a loss from foreign currency translation adjustment of \$381,001 in the Current Quarter as compared to a gain of \$346,727 in the Previous Quarter.

#### **Results of Operations for the Current Six Month Period compared to the Previous Six Month Period**

**Revenue:** Total revenues for the Current Six Month Period and the Previous Six Month Period were \$6,576,953 and \$10,636,961, respectively, representing a decrease of 38.2%. The Products Segment generated 64% of overall revenues and the Services Segment generated 36%. The decrease in Revenues in the Current Six Month Period is largely due to the decline in the revenues generated by both our Services Segment and Products Segment in the Current Quarter, thus impacting on the overall results of the Current Six Month Period.

The Services Segment revenues and consequently overall performance in the Current Six Month Period was impacted by the delay in the approval of the US Defense Budget. Although this and the line item appropriations have now been approved, we are in the process of negotiating the backlog orders for calendar years 2017 and 2018 with the various defense customers.

The Product Segment revenues and consequently overall performance in the Current Quarter was impacted adversely due to the fact that our industry's biggest trade show, Oceanology 2018, was convened in March 2018. Customers generally do not place orders before the trade event is held and order take for both first and second quarters for this segment was down. This therefore impacted its performance for the Current Six Month Period.

**Gross Margins:** Margin percentage was stronger in the Current Six Month Period at 71.3% (gross profit of \$4,689,988) compared to 62.4% (gross profit \$6,639,976) in the Previous Six Month Period. This increase is a reflection of the mix of sales generated in the Current Six Month Period with more units of rental sales generated from the Products Segment. The rental side of our operations generally yields higher gross profit margins than outright sale of products. Further information on the performance of each Segment can be found in Note 13 to the Unaudited Consolidated Financial Statements.

**Research and Development (R&D).** R&D expenditures in the Current Six Month Period were \$1,311,016 compared to \$498,988 in the Previous Six Month Period, representing an increase of 162.7%. This is in line with our budgetary plans for the fiscal year 2018 and is a reflection of the investments we are making across both segments of our business. The Products Segment continues to invest in the new generation of products (including our fourth generation (4G) of real time 3D sonar technology, the new generation of our F180<sup>®</sup> (new F280<sup>®</sup> series) and our geophysical software products where we are imminently launching our first product based on "deep learning/machine learning" techniques. Whereas, the Services Segment is investing R&D dollars in refreshing the Thermite<sup>®</sup> product it acquired in June 2014 and which is a significant part of its growth plans. Thermite<sup>®</sup> is a ruggedized mission computer with variants which are man worn, backpack worn and simultaneously integrated in the soldier's helmet and in defense systems such as air-borne drones. The next generation of Thermite<sup>®</sup> (now the Thermite<sup>®</sup> Octal) is at the prototype stage and is with a significant customer for trials and assessments.

Both the Products Segment and Services Segment R&D expenditures increased in the Current Six Month Period compared to the Previous Six Month Period.

| Description  | Amount     | % increase/decrease |
|--|------------|---------------------|
| Services Segment R&D Expenditures in the Current Six Month Period  | \$ 365,224 | -                   |
| Services Segment R&D Expenditures in the Previous Six Month Period | Nil        |                     |
| Products Segment R&D Expenditures in the Current Six Month Period  | \$ 945,792 | 89.5%               |
| Products Segment R&D Expenditures in the Previous Six Month Period | \$ 498,988 |                     |

**Selling, General and Administrative Expenses (SG&A).** SG&A expenses for the Current Six Month Period increased to \$3,531,387 from \$3,045,780 in the Previous Six Month Period representing an increase of 15.9%. In addition to the new costs associated with our SEC reporting, NASDAQ listing, increased professional fees relating to these activities, and increase in the costs of our Directors and Officers insurance, we had \$546,975 of non-recurring costs comprising \$159,218 in separation payments associated with reorganizing our Australian Operations (where we will focus our efforts on technical support in country and repatriate sales to our existing sales team in Edinburgh) along with an additional \$75,258 for exhibition, recruitment fees, advertisement, legal fees for immigration services (for staff recruited outside of the European Union), legal and professional fees of approximately \$35,000 associated with private placement transaction concluded in January 2018 and \$277,499 in stock compensation to a former officer of the Company pursuant to the terms of a settlement agreement entered into in 2011. Without these non-recurring costs our SG&A in the Current Six Month Period would be \$2,984,412, reflecting a decrease of 2.0% over the Previous Six Month Period.

Key Areas of SG&A Expenditure across the Group for the Current Six Month Period compared to the Previous Six Month Period are:

| Expenditure   | April 30, 2018 | April 30, 2017 | Percentage Change |
|---|----------------|----------------|-------------------|
| Wages and Salaries  | \$ 1,560,736   | \$ 1,653,947   | Decrease of 5.6%  |
| Legal and Professional Fees (including accounting, audit and investment banking services) | \$ 551,757     | \$ 484,404     | Increase of 13.9% |
| Rent for our various locations  | \$ 39,335      | \$ 29,979      | Increase of 31.2% |
| Marketing   | \$ 84,194      | \$ 120,515     | Decrease of 30.7% |

The category of Wages and Salaries expenditures includes \$159,218 of non-recurring separation payments associated with re-organizing our resources in our Australian subsidiary.

The increase in Legal and Professional category of expenditures is a reflection of the increased costs associated with becoming a listed SEC reporting company and exceptional costs of \$35,000 associated with completing the private placement transaction and filing the Form S-3 with the SEC following our equity financing transaction in January 2018.

The increase in the category of rent is a reflection of our subsidiary in Orlando now renting office space (and no longer owning office space). However, the outlook for this category of expenditure is that this will decrease as we are re-rationalizing the allocation of our costs to fund our Research and Development activities. As such, we will cease renting office space in Australia from May 2018 and Norway from April 2018 but there will be one-off costs associated with surrendering these premises.

The decrease in the category of Marketing expenditures is not a reflection of a reduction in these activities but more a reflection of the timing of these activities within the financial year. With the launch of our new products we would expect to increase this category of expenditure. This category does not include salary that is paid to our full time Marketing Executive.

In general, we are re-rationalizing our costs bases and re-allocating expenditures associated with some activities to R&D expenditures. For example, we have re-allocated sales resources from Australia to our existing sales team in Edinburgh, Scotland and although this involves incurring one-off separation costs this and other re-rationalization activities will ensure that we maintain our SG&A expenditures at a financially viable level and at the same time fund to a reasonable level our research and developments efforts.

**Operating Income (loss).** We realized a loss from our operating activities in the Current Six Month Period of \$152,415 as compared to an operating income of \$3,095,208 in the Previous Six Month Period. This decrease is due to the realization of a reduction in our revenues generated in the Current Six Month Period (for the reasons explained above) in conjunction with increases in both our Research & Development expenditures and Selling & General Administrative expenditures.

**Interest Expense.** Interest expense decreased by 52.3% in the Current Six Month Period to \$183,489 from \$384,341 in the Previous Six Month Period. This is due to:

- lower interest payments on our current Senior Loan with HSBC Bank NA than on the previous secured debentures which existed in the Previous Quarter (and now fully redeemed); and
- reduction of the Principal Amount on the said HSBC Bank Senior Loan on or around March 28, 2018 from \$6,789,736 to now \$1,755,591. Please refer to Note 9 – Loans and Notes Payable to the Unaudited Consolidated Financial Statements for further details pertaining to this HSBC Loan for more information on this.

**Other Income.** In the Current Six Month Period, we had Other Income of \$90,670 as compared to \$136,059 in the Previous Six Month Period resulting in a decrease by 33.4%. This category is subject to fluctuations as it usually reflects Value Added Tax rebates from purchases made outside of the European Union by our UK operations and therefore changes according to the level of such purchases.

**Net Income (Loss).** In the Current Six Month Period, we had a net loss of \$245,264 as compared to net income of \$2,846,926 in the Previous Six Month Period. This is attributable to the decrease in our overall revenues (for the reasons explained above) in conjunction with an increase in key areas of expenditures (Research & Development and Selling and General Administrative).

**Comprehensive Income (Loss).** In the Current Six Month Period, our Comprehensive Income was \$329,672 compared to \$3,614,813 in the Previous Six Month Period, representing a decrease of 90.9%. The decrease is a reflection of the loss realized in the Current Six Month Period. Comprehensive Income benefited from a foreign currency translation adjustment of \$57,936 in the Current Six Month Period as compared to \$767,887 in the Previous Six Month Period.

## *Liquidity and Capital Resources*

At April 30, 2018, the Company had an accumulated deficit of \$37,228,201, working capital of \$12,233,648 and stockholders' equity of \$19,804,573. For the Current Six Month Period, the Company generated cash from operations of \$242,715.

### Financing Activities

#### *Secured Promissory Note*

On April 28, 2017, the Company and its wholly-owned US based subsidiaries, Coda Octopus Products, Inc. and Coda Octopus Colmek, Inc. (together, the "Subsidiaries"), entered into a loan agreement with HSBC Bank NA (the "Lender") for a loan in the principal amount of \$8,000,000 (the "Loan"). The annual interest rate is fixed at 4.56%. Commencing on May 28, 2017 and continuing on the 28th day of each month thereafter, the Company was required to make monthly principal and interest payments of \$149,350 until April 28, 2022. In addition, within 30 days after the delivery to the Lender of the Company's annual audited financial statements, the Company is required to make an annual principal payment of \$700,000 during the term of the Loan. Such annual payments will reduce the balance of the principal outstanding. As a result, it is expected that the Loan will be repaid within a period of approximately 45 months. The Loan may be prepaid in whole or in part at any time subject to a break funding charge as detailed in the promissory note evidencing the Loan.

On March 28, 2018, in accordance with the terms of the HSBC Loan Agreement, the Company prepaid a portion of the principal and reduced the principal outstanding under this loan to \$1,917,602. This prepayment included the three annual payments of \$700,000 (totaling \$2,100,000) stipulated under the original term of the loan. As a result the monthly principal and interest payments have been reduced from \$149,350 to \$43,777 per month. It is now expected that the Loan will be repaid by December 31, 2021.

The obligations in connection with the repayment of the Loan are secured by all assets of Coda Octopus Group, Inc. and its US Subsidiaries. Our foreign subsidiaries are joint and several guarantors of the obligations.

The proceeds from the Loan were used to repay in its entirety the outstanding principal balance of \$8,000,000 of secured debentures (the "Debentures") that were issued by the Company in February 2007 and that were most recently held by CCM Holdings, LLC. ("CCM"). Accrued and unpaid interest under the Debentures of approximately \$1,133,261 was satisfied through the issuance to CCM of 1,000 shares of Series C Convertible Preferred Stock, par value \$0.001, with a stated value of \$1,000 each (the "Preferred Stock"). The Preferred Stock is convertible at the option of either the holder or the Company at a conversion price of \$5.00 for each Series C Preferred Stock held. The Company paid the balance in cash.

On April 30, 2018, the outstanding principal balance under the Loan was \$1,755,591 (See Note 9 of our Unaudited Consolidated Financial Statements above for more information on this). A full reconciliation of the HSBC Bank NA amounts is set out below:

|                                    |               |
|------------------------------------|---------------|
| Balance October 31, 2017           | \$ 7,279,353  |
| Balance January 31, 2018           | \$ 6,912,837  |
| Repayment January - April 28, 2018 | \$(5,157,246) |
| Balance April 30, 2018             | \$ 1,755,591  |

#### *Private Placement*

Between January 29, 2018 and February 12, 2018, the Company consummated the sale and issuance of 1,203,727 shares of its common stock in a private placement of shares of common stock at \$4.40 per share (the "Offering"). Total gross proceeds from the Offering were \$5,312,732. The purchase price per share was based on a 10% discount of the volume weighted average price (VWAP) of the common stock on the Nasdaq Capital Market for the 30-consecutive trading-day period ending on January 22, 2018. The total number of shares sold also included 75,000 shares of common stock sold to one of the Company's directors at \$4.61 per share, representing the consolidated closing bid price of the Company's common stock on February 2, 2018.

In accordance with the terms of the Offering, the Company filed a re-sale registration statement with respect to the shares issued in the Offering which was declared effective on May 2, 2018. For a period of 36 months, the investors also have the right to purchase, based on their pro-rata ownership of common stock, shares (or securities convertible into shares) offered in subsequent offerings, subject to certain limited exceptions.

## Inflation and Foreign Currency

The Company maintains its books in local currency: US Dollars, British Pound, Australian Dollars and Norwegian and Danish Kroner for its United States, United Kingdom, Australian, Norwegian and Danish operations, respectively.

The Company's operations are conducted in the United States, and through its wholly-owned subsidiaries, in the United Kingdom, Australia, Denmark and Norway. As a result, fluctuations in currency exchange rates do 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. In addition, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. The Company cannot predict the extent to which currency fluctuations may affect the Company's business and financial position, and there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Also, because differing portions of our revenues and costs are denominated in foreign currency, movements can impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens without correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure.

In the Current Quarter, the translation of the Company's UK operations' British Pound denominated balance sheets and income statements into US dollars has been affected by the strengthening of the average value of the British pound against the US dollars in the relevant time periods from \$1.26 during the Previous Quarter to \$1.39 in the Current Quarter. These are the values that have been used in the calculations below. In the Current Quarter the Australian Dollars and the Norwegian Kroner have strengthened slightly against the US Dollar compared to the Previous Quarter. We have not included the impact of Danish Kroner as the impact was immaterial.

The impact of these currency fluctuations on the three months ended April 30, 2018 is shown below. In this context "Constant Rates" is defined as the weighted average exchange rate prevailing in the Previous Quarter.

|                   | GBP            |                | AUD            |                | NOK            |                | Total Effect |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
|                   | Actual Results | Constant rates | Actual Results | Constant rates | Actual Results | Constant rates |              |
| Revenues          | 1,559,866      | 1,429,165      | 115,380        | 113,274        | 0              | 0              | 132,807      |
| Costs             | (1,585,778)    | (1,452,906)    | (190,569)      | (187,091)      | (9,865)        | (9,258)        | (136,957)    |
| Net Income (Loss) | (25,912)       | (23,741)       | (75,189)       | (73,817)       | (9,865)        | (9,258)        | (4,151)      |
| Assets            | 12,238,449     | 11,522,898     | 279,125        | 277,169        | 7,433          | 6,948          | 717,992      |
| Liabilities       | (775,440)      | (730,102)      | (1,404)        | (1,394)        | (1,297)        | (1,212)        | (45,432)     |
| Net Assets        | 11,463,009     | 10,792,796     | 277,721        | 275,774        | 6,136          | 5,736          | 672,560      |

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, increased our net loss on activities in the Current Quarter by \$4,151 and increased net assets by \$672,560. In addition, the Company booked transactional exchange rate losses of \$8,051 during the Current Quarter. All of these amounts are material to our overall financial results in the Current Quarter.

In the Current Six Month Period, the translation of the Company's UK operations' British Pound denominated balance sheets and income statements into US dollars has been affected by the strengthening of the average value of the British pound against the US dollars in the relevant time periods from \$1.25 during the Previous Six Month Period to \$1.38 in the Current Six Month Period. These are the values that have been used in the calculations below. In the Current Six Month Period the Australian Dollars and the Norwegian Kroner have weakened slightly against the US Dollar compared to the Previous Six Month Period.

The impact of these currency fluctuations on the six months ended April 30, 2018 is shown below. In this context "Constant Rates" is defined as the weighted average exchange rate prevailing in the Previous Six Month Period.

|                   | GBP            |                | AUD            |                | NOK            |                | Total Effect |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
|                   | Actual Results | Constant rates | Actual Results | Constant rates | Actual Results | Constant rates |              |
| Revenues          | 3,390,414      | 3,085,555      | 254,351        | 246,181        | 67             | 63             | 313,033      |
| Costs             | (3,104,857)    | (2,825,674)    | (249,160)      | (241,157)      | (62,720)       | (59,002)       | (290,904)    |
| Net Income (Loss) | 285,557        | 259,880        | 5,191          | 5,024          | (62,653)       | (58,939)       | 22,129       |
| Assets            | 12,238,449     | 11,522,898     | 279,125        | 277,169        | 7,433          | 6,948          | 717,992      |
| Liabilities       | (775,440)      | (730,102)      | (1,404)        | (1,394)        | (1,297)        | (1,212)        | (45,432)     |
| Net Assets        | 11,463,009     | 10,792,796     | 277,721        | 275,774        | 6,136          | 5,736          | 672,560      |



This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, increased our profit from our activities outside of the USA in the Current Six Month Period by \$22,129 and increased net assets by \$672,560. In addition, the Company booked transactional exchange rate losses of \$22,670 during the Current Six Month Period. All of these amounts are material to our overall financial results in the Current Six Month Period.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

#### **Item 3. Qualitative and Quantitative Disclosures About Market Risk**

Not required for smaller reporting companies.

#### **Item 4. Controls and Procedures**

##### **a) Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of April 30, 2018. Based upon that evaluation the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

##### **(b) Changes in Internal Controls.**

There was no change in our internal controls over financial reporting that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting during the quarter covered by this Report.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

### **Item 1A. Risks Factors**

Not required for smaller reporting companies

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the reporting period the Company issued the following shares of common stock:

On or around April 19, 2018, the Company issued an aggregate of 63,068 shares of its common stock at a value of \$4.40 for each share to an ex-employee pursuant to the terms of a settlement agreement entered into on or around January 14, 2011.

Pursuant to an agreement entered into in June 2017, on February 1, 2018 the Company issued an aggregate of 6,250 shares of its common stock to two consultants for services rendered at a value of \$4.62 for each share of common stock.

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 as they were issued without general solicitation and represented by certificates that were imprinted with a restrictive legend.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

### **Item 5. Other Information**

### **Item 6. Exhibits**

|         |   |
|---------|---|
| 31      | <a href="#"><u>Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a)</u></a>   |
| 32      | <a href="#"><u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a> |
| 101.INS | XBRL Instance Document.   |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

**SIGNATURES**

*Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.*

**Coda Octopus Group, Inc.** (Registrant)

Date: June 14, 2018

*/s/ Annmarie Gayle*

\_\_\_\_\_  
Annmarie Gayle  
Chief Executive Officer

Date: June 14, 2018

*/s/ Michael Midgley*

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Michael Midgley  
Chief Financial Officer



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, *Annmarie Gayle*, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended April 30, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2018

By: */s/ Annmarie Gayle*

Annmarie Gayle  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER**  
**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Midgley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended April 30, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2018

By: /s/ Michael Midgley

Michael Midgley  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Coda Octopus Group, Inc., a Delaware corporation (the "Company"), for the period ended April 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Annmarie Gayle, Chief Executive Officer of the Company, and Michael Midgley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 14, 2018

*/s/ Annmarie Gayle*

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Annmarie Gayle  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

*/s/ Michael Midgley*

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Michael Midgley  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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