

**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 July 31, 2022

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)

3300 S Hiwassee Rd, Suite 104-105,  
Orlando, Florida  
(Address of principal executive offices)

Registrant's telephone number, including area code:

34-2008348  
(I.R.S. Employer  
Identification Number)

32835  
(Zip Code)

(407) 735 2406

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CODA	Nasdaq

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 September 14, 2022 is 10,858,302.

**INDEX**

	Page
<b><u>PART I - Financial Information</u></b>	<b>3</b>
<b><u>Item 1: Financial Statements</u></b>	<b>3</b>
<u>Consolidated Balance Sheets as of July 31, 2022 (Unaudited) and October 31, 2021</u>	4
<u>Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended July 31, 2022 and 2021 (Unaudited)</u>	6
<u>Consolidated Statements of Changes in Stockholders' Equity for the Three and Nine Months Ended July 31, 2022 and 2021 (Unaudited)</u>	7
<u>Consolidated Statements of Cash Flows for the Nine Months Ended July 31, 2022 and 2021 (Unaudited)</u>	8
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
<b><u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>25</b>
<b><u>Item 3: Quantitative and Qualitative Disclosures about Market Risks</u></b>	<b>36</b>
<b><u>Item 4: Controls and Procedures</u></b>	<b>36</b>

<a href="#">PART II - Other Information</a>	37
<a href="#">Item 1: Legal Proceedings</a>	37
<a href="#">Item 1A: Risk Factors</a>	37
<a href="#">Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</a>	37
<a href="#">Item 3: Default Upon Senior Securities</a>	37
<a href="#">Item 4: Mine Safety Disclosures</a>	37
<a href="#">Item 5: Other Information</a>	37
<a href="#">Item 6: Exhibits</a>	37
<a href="#">Signatures</a>	38

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**



**Unaudited Consolidated Financial Statements  
For the Three Months Ended July 31, 2022 and 2021**

**Contents**

<a href="#">Consolidated Balance Sheets as of July 31, 2022 (Unaudited) and October 31, 2021</a>	4
<a href="#">Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months ended July 31, 2022 (Unaudited) and 2021 (Unaudited)</a>	6
<a href="#">Consolidated Statements of Changes in Stockholders' Equity for the Three and Nine Months ended July 31, 2022 (Unaudited) and 2021 (Unaudited)</a>	7
<a href="#">Consolidated Statements of Cash Flows for the Nine Months ended July 31, 2022 (Unaudited) and 2021 (Unaudited)</a>	8
<a href="#">Notes to Unaudited Consolidated Financial Statements</a>	9

**CODA OCTOPUS GROUP, INC.  
Consolidated Balance Sheets  
July 31, 2022 and October 31, 2021**

	<u>2022</u>	<u>2021</u>
	<b>Unaudited</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 21,370,920	\$ 17,747,656
Accounts Receivable, net	4,254,168	4,207,996
Inventory	10,183,213	10,691,177
Unbilled Receivables	416,394	1,080,384
Prepaid Expenses	397,127	1,202,327
Other Current Assets	<u>469,175</u>	<u>627,619</u>
Total Current Assets	37,090,997	35,557,159

<b>FIXED ASSETS</b>		
Property and Equipment, net	6,123,548	6,037,101
<b>OTHER ASSETS</b>		
Goodwill and Other Intangibles, net	3,825,878	3,794,383
Deferred Tax Asset	163,553	76,776
Total Other Assets	3,989,431	3,871,159
Total Assets	<u>\$ 47,203,976</u>	<u>\$ 45,465,419</u>

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

4

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets (Continued)**  
**July 31, 2022 and October 31, 2021**

	<u>2022</u>	<u>2021</u>
	<u>Unaudited</u>	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 836,978	\$ 1,454,611
Accrued Expenses and Other Current Liabilities	1,416,326	740,449
Note Payable	-	63,559
Deferred Revenue	2,056,487	1,999,841
Total Current Liabilities	4,309,791	4,258,460
<b>LONG TERM LIABILITIES</b>		
Deferred Revenue, less current portion	102,815	157,886
Total Long Term Liabilities	102,815	157,886
Total Liabilities	4,412,606	4,416,346
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, \$.001 par value; 150,000,000 shares authorized, 10,858,302 issued and outstanding as of July 31, 2022 and 10,857,195 shares issued and outstanding as of October 31, 2021	10,859	10,858
Additional Paid-in Capital	62,158,977	61,183,131
Accumulated Other Comprehensive Loss	(4,497,817)	(1,667,059)
Accumulated Deficit	(14,880,649)	(18,477,857)
Total Stockholders' Equity	42,791,370	41,049,073
Total Liabilities and Stockholders' Equity	<u>\$ 47,203,976</u>	<u>\$ 45,465,419</u>

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

5

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Income and Comprehensive Income**  
**(Unaudited)**

	<u>Three Months Ended July 31,</u>		<u>Nine Months Ended July 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net Revenues	\$ 6,267,409	\$ 5,827,375	\$ 17,090,455	\$ 16,250,910
Cost of Revenues	1,704,765	1,614,966	5,336,171	4,973,975
Gross Profit	4,562,644	4,212,409	11,754,284	11,276,935
<b>OPERATING EXPENSES</b>				
Research & Development	577,953	675,766	1,768,221	1,904,186
Selling, General & Administrative	1,960,978	2,213,821	6,116,085	5,824,046
Total Operating Expenses	2,538,931	2,889,587	7,884,306	7,728,232
<b>INCOME FROM OPERATIONS</b>	<u>2,023,713</u>	<u>1,322,822</u>	<u>3,869,978</u>	<u>3,548,703</u>
<b>OTHER INCOME (EXPENSE)</b>				
Other Income	19,744	3,571	114,236	75,070

Funding from Paycheck Protection Program	-	-	-	648,872
Interest Expense	-	(6,145)	(2,902)	(17,442)
Total Other Income (Expense)	19,744	(2,574)	111,334	706,500
INCOME BEFORE INCOME TAX EXPENSE	2,043,457	1,320,248	3,981,312	4,255,203
INCOME TAX (EXPENSE) BENEFIT				
Current Tax (Expense) Benefit	(326,732)	418,329	(503,191)	753,017
Deferred Tax Benefit (Expense)	51,932	(217,491)	119,087	(150,357)
Total Income Tax (Expense) Benefit	(274,800)	200,838	(384,104)	602,660
NET INCOME	\$ 1,768,657	\$ 1,521,086	\$ 3,597,208	\$ 4,857,863
NET INCOME PER SHARE:				
Basic	\$ 0.16	\$ 0.14	\$ 0.33	\$ 0.45
Diluted	\$ 0.16	\$ 0.13	\$ 0.32	\$ 0.43
WEIGHTED AVERAGE SHARES:				
Basic	10,858,302	10,830,183	10,857,724	10,786,107
Diluted	11,375,141	11,342,684	11,374,563	11,298,608
NET INCOME	\$ 1,768,657	\$ 1,521,086	\$ 3,597,208	\$ 4,857,863
Foreign Currency Translation Adjustment	(805,157)	(260,681)	(2,830,758)	963,644
Total Other Comprehensive Income (Loss)	(805,157)	(260,681)	(2,830,758)	963,644
COMPREHENSIVE INCOME	\$ 963,500	\$ 1,260,405	\$ 766,450	\$ 5,821,507

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

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Three and Nine Months Ended July 31, 2022 and 2021**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, October 31, 2020	10,751,881	\$ 10,753	\$ 60,132,415	\$ (2,321,278)	\$ (23,425,622)	\$ 34,396,268
Employee stock based compensation	-	-	174,447	-	-	174,447
Foreign currency translation adjustment	-	-	-	925,613	-	925,613
Net Income	-	-	-	-	1,128,844	1,128,844
Balance, January 31, 2021	10,751,881	\$ 10,753	\$ 60,306,862	\$ (1,395,665)	\$ (22,296,778)	\$ 36,625,172
Employee stock based compensation	-	-	135,157	-	-	135,157
Stock issued for options exercised	65,161	65	(65)	-	-	-
Foreign currency translation adjustment	-	-	-	298,712	-	298,712
Net Loss	-	-	-	-	2,207,933	2,207,933
Balance, April 30, 2021	10,817,042	\$ 10,818	\$ 60,441,954	\$ (1,096,953)	\$ (20,088,845)	\$ 39,266,974
Employee stock based compensation	-	-	230,879	-	-	230,879
Stock issued for options exercised	15,153	15	(15)	-	-	-
Consultant stock based compensation	25,000	25	220,725	-	-	220,750
Foreign currency translation adjustment	-	-	-	(260,681)	-	(260,681)
Net Income	-	-	-	-	1,521,086	1,521,086
Balance, July 31, 2021	10,857,195	\$ 10,858	\$ 60,893,543	\$ (1,357,634)	\$ (18,567,759)	\$ 40,979,008
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, October 31, 2021	10,857,195	\$ 10,858	\$ 61,183,131	\$ (1,667,059)	\$ (18,477,857)	\$ 41,049,073
Employee stock based compensation	-	-	325,175	-	-	325,175
Foreign currency translation adjustment	-	-	-	241,150	-	241,150
Net Income	-	-	-	-	1,217,248	1,217,248
Balance, January 31, 2022	10,857,195	\$ 10,858	\$ 61,508,306	\$ (1,425,909)	\$ (17,260,609)	\$ 42,832,646

Employee stock based compensation	-	-	365,568	-	-	365,568
Stock issued for options exercised	1,107	1	(1)	-	-	-
Foreign currency translation adjustment	-	-	-	(2,266,751)	-	(2,266,751)
Net Income	-	-	-	-	611,303	611,303
Balance, April 30, 2022	<u>10,858,302</u>	<u>\$ 10,859</u>	<u>\$ 61,873,873</u>	<u>\$ (3,692,660)</u>	<u>\$ (16,649,306)</u>	<u>\$ 41,542,766</u>
Employee stock based compensation	-	-	285,104	-	-	285,104
Foreign currency translation adjustment	-	-	-	(805,157)	-	(805,157)
Net Income	-	-	-	-	1,768,657	1,768,657
Balance, July 31, 2022	<u>10,858,302</u>	<u>\$ 10,859</u>	<u>\$ 62,158,977</u>	<u>\$ (4,497,817)</u>	<u>\$ (14,880,649)</u>	<u>\$ 42,791,370</u>

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

7

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	<u>Nine Months Ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,597,208	\$ 4,857,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	652,762	827,509
Stock based compensation	975,847	761,233
Deferred income taxes	(93,289)	150,357
Funding from Paycheck Protection Program recognized as income	-	(648,872)
(Increase) decrease in operating assets:		
Accounts receivable	(303,370)	(191,768)
Inventory	(415,752)	(1,688,545)
Unbilled receivables	642,380	(306,261)
Prepaid expenses	727,360	60,923
Other current assets	151,825	(312,041)
Increase (decrease) in operating liabilities:		
Accounts payable and other current liabilities	240,562	(379,552)
Deferred revenue	106,990	500,643
Net Cash Provided by Operating Activities	<u>6,282,523</u>	<u>3,631,489</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,120,051)	(759,733)
Purchases of other intangible assets	(75,834)	(78,893)
Net Cash Used in Investing Activities	<u>(1,195,885)</u>	<u>(838,626)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of notes	(63,559)	(379,763)
Proceeds from Paycheck Protection Program	-	648,872
Net Cash (Used in) Provided by Financing Activities	<u>(63,559)</u>	<u>269,109</u>
EFFECT OF CURRENCY TRANSLATION ON CHANGES IN CASH	<u>(1,399,815)</u>	<u>963,644</u>
NET INCREASE IN CASH	3,623,264	4,025,616
CASH AT THE BEGINNING OF THE PERIOD	<u>17,747,656</u>	<u>15,134,289</u>
CASH AT THE END OF THE PERIOD	<u>\$ 21,370,920</u>	<u>\$ 19,159,905</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 2,902	\$ 17,442
Cash paid for taxes	<u>\$ 74,432</u>	<u>\$ -</u>

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

8

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

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

Coda Octopus Group, Inc. (“Coda,” “the Company,” or “we”) operates two distinct operating business units. These are the Marine Technology Business (“Products Business”, “Products Operations” or “Products Segment”) and the Marine Engineering Business (“Services Business”, “Engineering Business”; or “Services Segment”). The Marine Technology Business sells technology solutions to the subsea and underwater markets. These solutions are designed, developed, manufactured and supported by the Company. Among the solutions which it offers to the market and currently its main revenue generating product, is its real time 3D volumetric imaging sonar which is a patented and leading product in the subsea/underwater market. This product is marketed under the name Echoscope<sup>®</sup> and Echoscope PIPE<sup>®</sup>, PIPE being an acronym for Parallel Intelligent Processing Engine. We also recently launched a new diver management system (Diver Augmented Vision Display (DAVD)) for use in the global defense and commercial diving markets and which we believe is a significant part of our growth pillars. The requirements for the DAVD system emanated from the Office of Naval Research. DAVD uses a pair of transparent glasses in the diver’s head up display (HUD) on which real time data is rendered. The concept of using a pair of transparent glasses in the Head up Display (HUD) underwater is patented and licensed to the Company by the United States Department of the Navy at Naval Surface Warfare Center Panama City Division. The Marine Engineering Business is a sub-contractor to prime defense contractors and generally supplies proprietary sub-assemblies for incorporation into broader mission critical defense systems. These parts typically are supplied for the life of the program. The Marine Engineering Business scope typically includes concept, design, prototype and

manufacture.

The consolidated financial statements include the accounts of Coda Octopus Group, Inc. and its wholly-owned domestic and foreign subsidiaries based outside of the US. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

#### NOTE 2 – REVENUE RECOGNITION

The Company recognizes revenue in accordance with the Financial Accounting Standards Board’s Topic 606, *Revenue from Contracts with Customers* (“Topic 606”).

Topic 606 has established a five-step process to determine the amount of revenue to record from contracts with customers. The five steps are:

- Determine if we have a contract with a customer;
- Determine the performance obligations in that contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Determine when to recognize revenue.

Our revenues are earned under formal contracts with our customers and are derived from both sales and rental of underwater technologies and equipment for real time 3D imaging, mapping, defense and survey applications and from engineering services which we provide primarily to prime defense contractors. Our contracts do not include the possibility for additional contingent consideration so that our determination of the contract price does not involve having to consider potential additional variable consideration. Our sales do not include a right of return by the customer.

9

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 2 – REVENUE RECOGNITION (Continued)

Regarding our Marine Technology Business (“Products Business”), all of our products are sold on a stand-alone basis and those market prices are evidence of the value of the products. To the extent that we also provide services (e.g., installation, training, post-sales technical support, etc.), those services are either included as part of the product or are subject to written contracts based on the stand-alone value of those services. Revenue from the sale of services is recognized when those services have been performed and evidence of the provision of those services exist.

Revenue derived from either our subscription package offerings or rental of our equipment is recognized when performance obligations are met, in particular, on a daily basis during the subscription or rental period.

For arrangements with multiple performance obligations, we recognize product revenue by allocating the transaction revenue to each performance obligation based on the relative fair value of each deliverable and recognize revenue when performance obligations are met including when equipment is delivered, and for rental of equipment, when installation and other services are performed.

Our contracts sometimes require customer payments in advance of revenue recognition. These are recognized as revenue when the Company has fulfilled its obligations under the respective contracts. Until such time, we recognize this prepayment as deferred revenue.

For software license sales for which any services rendered are not considered distinct to the functionality of the software, we recognize revenue upon delivery of the software by the provision of the activation codes to the software.

With respect to revenues related to our Services Business, there are contracts in place that specify the fixed hourly rate and other reimbursable costs to be billed based on material and direct labor hours incurred and revenue is recognized on these contracts based on material and the 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 we consider expenditures for direct materials and labor hours to be the best available measure of progress on these contracts.

On a quarterly basis, we examine all of our fixed-price contracts to determine if there are any losses to be recognized during the period. Any such loss is recorded in the quarter 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.

#### *Recoverability of Deferred Costs*

In accordance with Topic 606, we defer costs on projects for service revenue. Deferred costs consist primarily of incremental direct 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. The pricing of these service contracts is intended to provide for the recovery of these types of deferred costs over the life of the contract.

10

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 2 – REVENUE RECOGNITION (Continued)

We recognize such costs in accordance with our revenue recognition policy by contract. 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 over time, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each quarterly 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.

#### Deferred Commissions

Our incremental direct costs of obtaining a contract, which consists of sales commissions are deferred and amortized over the period of the contract performance. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. As of July 31, 2022 and October 31, 2021, we had deferred commissions of \$66,946 and \$0, respectively. Amortization expense related to deferred commissions was \$16,186 and \$3,884 in the nine months years ended July 31, 2022, and 2021, respectively.

#### Other Revenue Disclosures

See Note 15 – Disaggregation of Revenue providing a breakdown of revenues from external customers and cost of those revenues between our Product Segment and Services Segment including information on the split of revenues by geography.

#### NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

11

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 4 – FOREIGN CURRENCY TRANSLATION

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

#### NOTE 5 – INVENTORY

Inventory is stated at the lower of cost (First in, First Out method) or net realizable value. Inventory consisted of the following components:

	July 31, 2022	October 31, 2021
Raw materials and parts	\$ 6,847,710	\$ 7,525,419
Work in progress	660,890	919,619
Finished goods	2,674,613	2,246,139
Total Inventory	<u>\$ 10,183,213</u>	<u>\$ 10,691,177</u>

#### NOTE 6 – FIXED ASSETS

Property and equipment consisted of the following as of:

	July 31, 2022	October 31, 2021
Buildings	\$ 5,618,650	\$ 5,298,028
Land	200,000	200,000
Office machinery and equipment	1,687,417	1,622,871
Rental assets	2,345,544	2,326,486
Furniture, fixtures and improvements	1,146,145	1,218,217
Totals	10,997,756	10,665,602
Less: accumulated depreciation	<u>(4,874,208)</u>	<u>(4,628,501)</u>
Total Property and Equipment, net	<u>\$ 6,123,548</u>	<u>\$ 6,037,101</u>

12

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 7 – OTHER CURRENT ASSETS

Other current assets consisted of the following as of:

	July 31, 2022	October 31, 2021
Deposits	\$ 94,547	\$ 63,992
Other Tax Receivables	136,633	-

Employee Retention Credit Receivables	237,995	563,627
Total Other Current Assets	<u>\$ 469,175</u>	<u>\$ 627,619</u>

NOTE 8 – 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 estimates related to the percentage of completion method used to account for contracts including costs and earnings in excess of billings, billings in excess of costs and estimated earnings and the valuation of goodwill.

NOTE 9 – 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 \$416,394 and \$1,080,384 as of July 31, 2022, and October 31, 2021, respectively.

Our Deferred Revenue of \$1,905,834 and \$1,879,790 as of July 31, 2022, and October 31, 2021, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations upon completing a sale, as elaborated further in the last paragraph of this note.

Sales of equipment include a separate performance obligation for warranty, which is treated as deferred revenue, along with sales for which the customer may purchase extended warranty option. These amounts are amortized over the relevant obligation period (12 months is our standard warranty or 24, 36 or 60 months for our extended warranty, sold as Through Life Support (TLS) Package) from the date of delivery. These amounts are stated on the consolidated balance sheets as a component of Deferred Revenue and were \$253,468 and \$277,937 as of July 31, 2022, and October 31, 2021, respectively.

13

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

NOTE 10 – CONCENTRATIONS

Significant Customers

During the three months ended July 31, 2022, the Company had one customer from whom it generated sales greater than 10% of net revenues. Revenue from this customer was \$660,750, or 10.5% of net revenues during the three months ended July 31, 2022. Receivables from this customer were \$246,100, or 5.8% of net receivables as of July 31, 2022.

During the three months ended July 31, 2021, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenues from these customers were \$1,474,464, or 25% of net revenues during the three months ended July 31, 2021. Receivables from these customers were \$72,449 or 3.2% of net receivable as of July 31, 2021.

During the nine months ended July 31, 2022, the Company had one customer from whom it generated sales of 10% or more of net revenues. Revenues from this customer were \$1,709,791, or 10% of net revenues during the nine months ended July 31, 2022. Receivables from this customer were \$42,515 or 12.75% of net receivables as of July 31, 2022.

During the nine months ended July 31, 2021, the Company had one customer from whom it generated sales of \$588,172, or 10% of net revenues. Receivables from this customer were \$72,449 or 3.2% of net receivables as of July 31, 2021.

14

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

NOTE 11 – RECENT ACCOUNTING PRONOUNCEMENTS

There have been no new accounting pronouncements not yet effective that have significant or potential significance, to our Consolidated Financial Statements.

NOTE 12 – EARNINGS PER SHARE

Fiscal Period	Three Months Ended July 31 2022	Three Months Ended July 31 2021	Nine Months Ended July 31 2022	Nine Months Ended July 31 2021
<b>Numerator:</b>				
Net Income	<u>\$ 1,768,657</u>	<u>\$ 1,521,086</u>	<u>\$ 3,597,208</u>	<u>\$ 4,857,863</u>
<b>Denominator:</b>				
Basic weighted average common shares outstanding	10,858,302	10,830,183	10,857,724	10,786,107
Unused portion of options and restricted stock awards	<u>516,839</u>	<u>512,501</u>	<u>516,839</u>	<u>512,501</u>
Diluted outstanding shares	<u>11,375,141</u>	<u>11,342,684</u>	<u>11,374,563</u>	<u>11,298,608</u>
<b>Net income per share</b>				
Basic	\$ 0.16	\$ 0.14	\$ 0.33	\$ 0.45
Diluted	\$ 0.16	\$ 0.13	\$ 0.32	\$ 0.43

NOTE 13 – 2017 STOCK INCENTIVE PLAN



On December 6, 2017, the Board of Directors adopted the 2017 Stock Incentive Plan (the “2017 Plan”) with 913,612 shares of Common Stock available under the Plan for issuance. This Plan was approved by Stockholders at its meeting held on July 24, 2018.

On July 12, 2021, the Board of Directors adopted the 2021 Stock Incentive Plan (the “2021 Plan”). The 2021 Plan is identical to the 2017 in all material respects, except that the number of shares available for issuance thereunder is 1,000,000. This Plan was approved by Stockholders at its meeting held on September 14, 2021.

During the nine months ended July 31, 2022, the Company granted to various eligible individuals Restricted Stock Awards of 64,687 shares of common stock pursuant to the terms of the Plan. During the nine months ended July 31, 2021, 36,501 options or Restricted Stock Grants were forfeited. During the nine months ended July 31, 2022, 177,333 options vested and remained unexercised. In addition, 3,333 options were exercised on a cashless basis resulting in the issuance of 1,107 shares. As of July 31, 2022, there were 1,396,772 shares available for future issue under both 2017 and 2021 Plans. The total stock compensation expense during the nine months ended July 31, 2022, was \$975,847.

During the nine months ended July 31, 2021, the Company granted to various eligible individuals Restricted Stock Awards to purchase an aggregate of 127,500 shares of common stock pursuant to the terms of the Plan. During the nine months ended July 31, 2021, 8,000 options were forfeited. As of July 31, 2021, 80,314 shares of common stock were issued pursuant to the cashless exercise of 169,332 options. In March 2021, 13,333 options vested but remained unexercised as of July 31, 2021. As of July 31, 2021, there were 288,773 shares of common stock available for future issue under the Plan. The total stock compensation expense during the nine months ended July 31, 2021, was \$761,233.

#### NOTE 14 -SEGMENT ANALYSIS

Based on the fundamental difference in the types of offering, products and solutions versus services, we operate two distinct reportable segments which are managed separately. Coda Octopus Products (“Marine Technology Business” or “Products Segment”) operations are comprised primarily of sale of underwater technology sonar solutions, products for underwater operations including hardware and software, diver management system and rental of solutions and products to the underwater market. Coda Octopus Martech and Coda Octopus Colmek (“Marine Engineering Business” or “Services Segment”) provides engineering services primarily as sub-contractors to prime defense contractors.

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

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

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

The following tables summarize segment asset and operating balances by reportable segment as of and for the three and nine months ended July 31, 2022 and 2021, respectively.

The Company’s reportable business segments sell their goods and services in four geographic locations:

- Americas
- Europe
- Australia/Asia
- Middle East/Africa

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 14 -SEGMENT ANALYSIS (Continued)

	<u>Marine Technology Business (Products)</u>	<u>Marine Engineering Business (Services)</u>	<u>Overhead</u>	<u>Total</u>
<b>Three Months Ended July 31, 2022</b>				
Net Revenues	\$ 4,004,557	\$ 2,262,852	\$ -	\$ 6,267,409
Cost of Revenues	<u>532,248</u>	<u>1,172,517</u>	<u>-</u>	<u>1,704,765</u>
<b>Gross Profit</b>	3,472,309	1,090,335	-	4,562,644
Research & Development	605,857	(27,904)	-	577,953
Selling, General & Administrative	<u>731,200</u>	<u>700,820</u>	<u>528,958</u>	<u>1,960,978</u>
<b>Total Operating Expenses</b>	1,337,057	672,916	528,958	2,538,931
<b>Income (Loss) from Operations</b>	2,135,252	417,419	(528,958)	2,023,713
<b>Other Income (Expense)</b>				
Other Income	14,472	4,212	1,060	19,744
Interest Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Income (Expense)</b>	<u>14,472</u>	<u>4,212</u>	<u>1,060</u>	<u>19,744</u>
Income (Loss) before Income Taxes	2,149,724	421,631	(527,898)	2,043,457
<b>Income Tax (Expense) Benefit</b>				
Current Tax Expense	(226,264)	(23,148)	(77,320)	(326,732)
Deferred Tax Benefit	<u>378</u>	<u>2,141</u>	<u>49,413</u>	<u>51,932</u>

<b>Total Income Tax (Expense) Benefit</b>	<u>(225,886)</u>	<u>(21,007)</u>	<u>(27,907)</u>	<u>(274,800)</u>
<b>Net Income (Loss)</b>	<u>\$ 1,923,838</u>	<u>\$ 400,624</u>	<u>\$ (555,805)</u>	<u>\$ 1,768,657</u>
<b>Supplemental Disclosures</b>				
Total Assets	\$ 33,015,110	\$ 13,354,167	\$ 834,699	\$ 47,203,976
Total Liabilities	\$ 3,246,151	\$ 774,497	\$ 391,958	\$ 4,412,606
Revenues from Intercompany Sales - eliminated from sales above	\$ 966,316	\$ 62,757	\$ 607,500	\$ 1,636,573
Depreciation and Amortization	\$ 174,739	\$ 24,209	\$ 9,873	\$ 208,821
Purchases of Long-lived Assets	\$ 14,815	\$ 22,125	\$ 17,469	\$ 54,409

16

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

NOTE 14 -SEGMENT ANALYSIS (Continued)

	<u>Marine Technology Business (Products)</u>	<u>Marine Engineering Business (Services)</u>	<u>Overhead</u>	<u>Total</u>
<b>Three Months Ended July 31, 2021</b>				
Net Revenues	\$ 3,845,051	\$ 1,982,324	\$ -	\$ 5,827,375
Cost of Revenues	<u>545,243</u>	<u>1,069,723</u>	<u>-</u>	<u>1,614,966</u>
<b>Gross Profit</b>	3,299,808	912,601	-	4,212,409
Research & Development	540,553	135,213	-	675,766
Selling, General & Administrative	<u>862,673</u>	<u>621,876</u>	<u>729,272</u>	<u>2,213,821</u>
<b>Total Operating Expenses</b>	1,403,226	757,089	729,272	2,889,587
<b>Income (Loss) from Operations</b>	1,896,582	155,512	(729,272)	1,322,822
<b>Other Income (Expense)</b>				
Other Income	3,554	17	-	3,571
Interest Expense	<u>(584)</u>	<u>(365)</u>	<u>(5,196)</u>	<u>(6,145)</u>
<b>Total Other Income (Expense)</b>	<u>2,970</u>	<u>(348)</u>	<u>(5,196)</u>	<u>(2,574)</u>
Income (Loss) before Income Taxes	1,899,552	155,164	(734,468)	1,320,248
<b>Income Tax (Expense) Benefit</b>				
Current Tax Benefit (Expense)	157,333	260,996	-	418,329
Deferred Tax (Expense) Benefit	<u>(338,098)</u>	<u>108,141</u>	<u>12,466</u>	<u>(217,491)</u>
<b>Total Income Tax (Expense) Benefit</b>	<u>(180,765)</u>	<u>369,137</u>	<u>12,466</u>	<u>200,838</u>
<b>Net Income (Loss)</b>	<u>\$ 1,718,787</u>	<u>\$ 524,301</u>	<u>\$ (722,002)</u>	<u>\$ 1,521,086</u>
<b>Supplemental Disclosures</b>				
Total Assets	\$ 28,820,472	\$ 14,608,555	\$ 934,192	\$ 44,363,219
Total Liabilities	\$ 2,159,921	\$ 844,816	\$ 379,474	\$ 3,384,211
Revenues from Intercompany Sales - eliminated from sales above	\$ 492,579	\$ 44,372	\$ 675,000	\$ 1,211,951
Depreciation and Amortization	\$ 195,103	\$ 24,590	\$ 7,952	\$ 227,645
Purchases of Long-lived Assets	\$ 201,198	\$ 7,655	\$ 30,584	\$ 239,437

17

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

## NOTE 14 -SEGMENT ANALYSIS (Continued)

	<u>Marine Technology Business (Products)</u>	<u>Marine Engineering Business (Services)</u>	<u>Overhead</u>	<u>Total</u>
<b>Nine Months Ended July 31, 2022</b>				
Net Revenues	\$ 11,319,314	\$ 5,771,141	\$ -	\$ 17,090,455
Cost of Revenues	<u>1,920,573</u>	<u>3,415,598</u>	<u>-</u>	<u>5,336,171</u>
<b>Gross Profit</b>	9,398,741	2,355,543	-	11,754,284
Research & Development	1,752,478	15,743	-	1,768,221
Selling, General & Administrative	<u>2,059,147</u>	<u>2,040,608</u>	<u>2,016,330</u>	<u>6,116,085</u>
<b>Total Operating Expenses</b>	3,811,625	2,056,351	2,016,330	7,884,306
<b>Income (Loss) from Operations</b>	5,587,116	299,192	(2,016,330)	3,869,978
<b>Other Income (Expense)</b>				
Other Income	32,576	79,256	2,404	114,236
Interest Expense	<u>(2,502)</u>	<u>-</u>	<u>(400)</u>	<u>(2,902)</u>
<b>Total Other Income (Expense)</b>	<u>30,074</u>	<u>79,256</u>	<u>2,004</u>	<u>111,334</u>
Income (Loss) before Income Taxes	5,617,190	378,448	(2,014,326)	3,981,312
<b>Income Tax (Expense) Benefit</b>				
Current Tax Benefit (Expense)	(492,505)	147,778	(158,464)	(503,191)
Deferred Tax (Expense) Benefit	<u>5,159</u>	<u>(42,839)</u>	<u>156,767</u>	<u>119,087</u>
<b>Total Income Tax (Expense) Benefit</b>	<u>(487,346)</u>	<u>104,939</u>	<u>(1,697)</u>	<u>(384,104)</u>
<b>Net Income (Loss)</b>	<u>\$ 5,129,844</u>	<u>\$ 483,387</u>	<u>\$ (2,016,023)</u>	<u>\$ 3,597,208</u>
<b>Supplemental Disclosures</b>				
Total Assets	\$ 33,015,110	\$ 13,354,167	\$ 834,699	\$ 47,203,976
Total Liabilities	\$ 3,246,151	\$ 774,497	\$ 391,958	\$ 4,412,606
Revenues from Intercompany Sales - eliminated from sales above	\$ 1,769,365	\$ 305,450	\$ 1,815,000	\$ 3,889,815
Depreciation and Amortization	\$ 551,866	\$ 72,056	\$ 28,840	\$ 652,762
Purchases of Long-lived Assets	\$ 1,085,877	\$ 34,174	\$ 75,834	\$ 1,195,885

18

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

## NOTE 14 -SEGMENT ANALYSIS (Continued)

	<u>Marine Technology Business (Products)</u>	<u>Marine Engineering Business (Services)</u>	<u>Overhead</u>	<u>Total</u>
<b>Nine Months Ended July 31, 2021</b>				
Net Revenues	\$ 11,777,739	\$ 4,473,171	\$ -	\$ 16,250,910
Cost of Revenues	<u>2,462,219</u>	<u>2,511,756</u>	<u>-</u>	<u>4,973,975</u>
<b>Gross Profit</b>	9,315,520	1,961,415	-	11,276,935
Research & Development	1,521,175	383,011	-	1,904,186
Selling, General & Administrative	<u>2,402,406</u>	<u>1,751,197</u>	<u>1,670,443</u>	<u>5,824,046</u>
<b>Total Operating Expenses</b>	3,923,581	2,134,208	1,670,443	7,728,232
<b>Income (Loss) from Operations</b>	5,391,939	(172,793)	(1,670,443)	3,548,703
<b>Other Income (Expense)</b>				
Other Income	74,173	51	846	75,070
Funding from Paycheck Protection Program	122,327	526,545	-	648,872

Interest Expense	(1,069)	(365)	(16,008)	(17,442)
<b>Total Other Income (Expense)</b>	<b>195,431</b>	<b>526,231</b>	<b>(15,162)</b>	<b>706,500</b>
Income (Loss) before Income Taxes	5,587,370	353,438	(1,685,605)	4,255,203
<b>Income Tax (Expense) Benefit</b>				
Current Tax (Expense) Benefit	254,745	498,666	(394)	753,017
Deferred Tax Benefit (Expense)	(356,164)	264,636	(58,829)	(150,357)
<b>Total Income Tax (Expense) Benefit</b>	<b>(101,419)</b>	<b>763,302</b>	<b>(59,223)</b>	<b>602,660</b>
<b>Net Income (Loss)</b>	<b>\$ 5,485,951</b>	<b>\$ 1,116,740</b>	<b>\$ (1,744,828)</b>	<b>\$ 4,857,863</b>

#### Supplemental Disclosures

Total Assets	\$ 28,820,472	\$ 14,608,555	\$ 934,192	\$ 44,363,219
Total Liabilities	\$ 2,159,921	\$ 844,816	\$ 379,474	\$ 3,384,211
Revenues from Intercompany Sales - eliminated from sales above	\$ 1,367,619	\$ 184,016	\$ 2,025,000	\$ 3,576,635
Depreciation and Amortization	\$ 707,761	\$ 98,671	\$ 21,077	\$ 827,509
Purchases of Long-lived Assets	\$ 745,405	\$ 13,203	\$ 80,018	\$ 838,626

19

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 15 –DISAGGREGATION OF REVENUE

	For the Three Months Ended July 31, 2022		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			
<b>Primary Geographical Markets</b>			
Americas	\$ 1,626,657	\$ 1,468,483	\$ 3,095,140
Europe	278,973	794,369	1,073,342
Australia/Asia	1,435,637	-	1,435,637
Middle East/Africa	663,290	-	663,290
<b>Total Revenues</b>	<b>\$ 4,004,557</b>	<b>\$ 2,262,852</b>	<b>\$ 6,267,409</b>
<b>Major Goods/Service Lines</b>			
Equipment Sales	\$ 2,928,019	\$ 451,416	\$ 3,379,435
Equipment Rentals	380,984	-	380,984
Software Sales	252,204	-	252,204
Engineering Parts	-	999,228	999,228
Services	443,350	812,208	1,255,558
<b>Total Revenues</b>	<b>\$ 4,004,557</b>	<b>\$ 2,262,852</b>	<b>\$ 6,267,409</b>
Goods transferred at a point in time	\$ 3,180,223	\$ 451,416	\$ 3,631,639
Services transferred over time	824,334	1,811,436	2,635,770
<b>Total Revenues</b>	<b>\$ 4,004,557</b>	<b>\$ 2,262,852</b>	<b>\$ 6,267,409</b>

20

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

#### NOTE 15 –DISAGGREGATION OF REVENUE (Continued)

	For the Three Months Ended July 31, 2021		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			

Primary Geographical Markets			
Americas	\$	962,043	\$ 589,560 \$ 1,551,603
Europe		1,649,281	1,392,764 3,042,045
Australia/Asia		971,563	- 971,563
Middle East/Africa		262,164	- 262,164
<b>Total Revenues</b>	<b>\$</b>	<b>3,845,051</b>	<b>\$ 1,982,324 \$ 5,827,375</b>
Major Goods/Service Lines			
Equipment Sales	\$	2,151,520	\$ 782,255 \$ 2,933,775
Equipment Rentals		713,389	- 713,389
Software Sales		153,150	- 153,150
Engineering Parts		-	1,093,176 1,093,176
Services		826,992	106,893 933,885
<b>Total Revenues</b>	<b>\$</b>	<b>3,845,051</b>	<b>\$ 1,982,324 \$ 5,827,375</b>
Goods transferred at a point in time	\$	2,298,962	\$ 670,255 \$ 2,969,217
Services transferred over time		1,546,089	1,312,069 2,858,158
<b>Total Revenues</b>	<b>\$</b>	<b>3,845,051</b>	<b>\$ 1,982,324 \$ 5,827,375</b>

21

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

## NOTE 15 –DISAGGREGATION OF REVENUE (Continued)

	For the Nine Months Ended July 31, 2022		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			
Primary Geographical Markets			
Americas	\$	4,109,260	\$ 3,251,009 \$ 7,360,269
Europe		991,323	2,520,132 3,511,455
Australia/Asia		4,477,178	- 4,477,178
Middle East/Africa		1,741,553	- 1,741,553
<b>Total Revenues</b>	<b>\$</b>	<b>11,319,314</b>	<b>\$ 5,771,141 \$ 17,090,455</b>
Major Goods/Service Lines			
Equipment Sales	\$	6,945,001	\$ 1,431,414 \$ 8,376,415
Equipment Rentals		1,726,760	- 1,726,760
Software Sales		691,422	- 691,422
Engineering Parts		-	2,918,181 2,918,181
Services		1,956,131	1,421,546 3,377,677
<b>Total Revenues</b>	<b>\$</b>	<b>11,319,314</b>	<b>\$ 5,771,141 \$ 17,090,455</b>
Goods transferred at a point in time	\$	7,618,774	\$ 1,431,416 \$ 9,050,190
Services transferred over time		3,700,540	4,339,725 8,040,265
<b>Total Revenues</b>	<b>\$</b>	<b>11,319,314</b>	<b>\$ 5,771,141 \$ 17,090,455</b>

22

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

## NOTE 15 –DISAGGREGATION OF REVENUE (Continued)

	For the Nine Months Ended July 31, 2021		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			
Primary Geographical Markets			
Americas	\$	2,425,850	\$ 1,703,464 \$ 4,129,314
Europe		4,440,036	2,769,707 7,209,743
Australia/Asia		4,466,796	- 4,466,796

Middle East/Africa	445,057	-	445,057
<b>Total Revenues</b>	<b>\$ 11,777,739</b>	<b>\$ 4,473,171</b>	<b>\$ 16,250,910</b>
<b>Major Goods/Service Lines</b>			
Equipment Sales	\$ 8,035,469	\$ 1,096,718	\$ 9,132,187
Equipment Rentals	1,645,942	-	1,645,942
Software Sales	599,425	-	599,425
Engineering Parts	-	2,727,892	2,941,848
Services	1,496,903	648,561	1,931,508
<b>Total Revenues</b>	<b>\$ 11,777,739</b>	<b>\$ 4,473,171</b>	<b>\$ 16,250,910</b>
Goods transferred at a point in time	\$ 8,666,514	\$ 984,717	\$ 9,651,231
Services transferred over time	3,111,225	3,488,454	6,599,679
<b>Total Revenues</b>	<b>\$ 11,777,739</b>	<b>\$ 4,473,171</b>	<b>\$ 16,250,910</b>

23

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
July 31, 2022, and October 31, 2021

NOTE 16 – COVID-19

The Company is continuing to face various risks related to the global outbreak of coronavirus disease (“COVID-19”).

The Engineering Services Business is dependent on its workforce and supply chain to deliver its products and services primarily to the U.S. and U.K. Governments. COVID-19 outbreaks among the workforce affect our ability to complete our projects within specified timeline and also increase the costs of such projects. Furthermore, costs of increase in labor due to a general shortage of labor or supply chain issues, may not be fully recoverable either from our customers or under existing insurance policies.

The Marine Technology Business is dependent on its workforce and/or distributors/resellers to sell and deliver its products and services. Travel restrictions introduced by governments in the areas in which we sell our solutions have impacted the Marine Products Business’s ability to deploy its workforce effectively. The Company’s activities are performed in certain international locations that are also impacted by the COVID-19 outbreak. Furthermore, it is critical for the Marine Technology Business to have in-person engagement with customers for the demonstration of its products from a vessel at sea. The restriction on global travel has resulted in significantly less customer engagement which affects the demand for its goods and services. These disruptions continue to impact the business. Particularly, its ability to perform sustained and meaningful business development and marketing activities, which require demonstrations at sea at customer locations.

Further, the Pandemic may continue to affect the Company’s results of operation, financial position, and liquidity.

NOTE 17 – INCOME TAXES

The Company’s effective tax rate for the three months ended July 31, 2022, and 2021 was 13.4 % and (15.2) % respectively. The increase in the effective tax rate for the three months ended July 31, 2022, as compared to July 31, 2021, resulted from the US companies becoming tax paying entities having used up their net operating loss carryforwards. We have been recording the US tax rate of 21% for the US companies. We have been recording the UK tax rate at 0.0% as we believe our R&D tax credits will offset any tax liability incurred.

The Company’s effective tax rate for the nine months ended July 31, 2022, and 2021 was 9.6 % and (14.2) % respectively. The increase in the effective tax rate for the nine months ended July 31, 2022, as compared to July 31, 2021, resulted from the US companies becoming tax paying entities having used up their net operating loss carryforwards. We have been recording the US tax rate of 21% for the US companies. We have been recording the UK tax rate at 0.0% as we believe our R&D tax credits will offset any tax liability incurred.

NOTE 18 - RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications have no effect on the previously reported consolidated financial statements.

24

**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 annual report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2022. This discussion should not be construed to imply that the results discussed herein will necessarily be indicative of actual operating results in the future. Such discussion represents only our management’s best present assessment.

**General Overview**

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

“Current Quarter”	Three-month period ended July 31, 2022
“Previous Quarter”	Three-month period ended July 31, 2021

We operate two distinct business operations. These are:

- the Marine Technology Business (also referred to in this Form 10-Q as “Products Business”, “Products Operations” or “Products Segment”); and
- the Marine Engineering Business (also referred to in this Form 10-Q as “Engineering Business”, or “Services Business” or “Services Segment”).

Our Marine Technology Business is an established technology solution provider to the subsea and underwater imaging, surveying and diving market. It has been operating as a supplier of solutions comprising both hardware and software products for over 25 years and it owns key proprietary technology including real time volumetric 3D Imaging Sonar technology and cutting-edge diving technology, that are used in both the underwater defense and commercial markets. All design, development and manufacturing of our technology and solutions are performed within the Company.

Our imaging sonar technology products and solutions marketed under the name of Echoscope<sup>®</sup> and Echoscope PIPE<sup>®</sup> are used primarily in the underwater construction market, offshore wind energy industry (offshore renewables), offshore oil and gas, forward looking obstacle avoidance, complex underwater mapping, salvage operations, dredging, bridge inspection, underwater hazard detection, port security, mining, fisheries, commercial and defense diving, and marine sciences sectors. Our novel diving technology is distributed under the name “CodaOctopus<sup>®</sup> DAVD” (Diver Augmented Vision Display) to the global defense and commercial diving markets. The DAVD embeds inside of the diver Head up Display (HUD) a pair of transparent glasses on which different types of information is rendered in real time. We believe that the DAVD system has the potential to radically change how diving operations are performed globally because it delivers a real time information platform for both divers and dive supervisors, allows diving operations to be performed in zero visibility water conditions, provides real time mapping of the dive area and serves as an important evidential record of the dive operations completed.

Although we generate most of our revenues from our real time 3D sonar which includes both proprietary hardware and software, we have a number of other products in the subsea market such as our inertial navigation systems (F180 Series<sup>®</sup> and F280 Series<sup>®</sup>) and our geophysical hardware and software solutions, which include artificial intelligence based automatic detection systems. Our customers include offshore service providers to major oil and gas companies, renewable energy companies, underwater construction companies, law enforcement agencies, ports, mining companies, defense bodies, prime defense contractors, research institutes and universities and diving companies.

Our Services Business acts primarily as a sub-contractor to prime defense contractors. It engineers sub-assemblies which are utilized in broader defense programs. The Services Business has operations in the USA and UK. Its central business model is the design and manufacture of sub-assemblies for utilization into larger defense mission critical integrated systems (“MCIS”). An example of such MCIS is the US Close-In-Weapons Support (CIWS) Program for the Phalanx radar-guided cannon used on combat ships. These proprietary sub-assemblies, once approved within the MCIS program, afford the Services Business the status of preferred supplier. Such status permits it to supply these sub-assemblies and upgrades in the event of obsolescence or advancement of technology for the life of the MCIS program. Clients include prime defense contractors such as Raytheon, Northrop Grumman, Thales Underwater and BAE Systems. The scope of services provided by the Services Business encompasses concept, design, prototype and manufacturing.

#### ***Key Pillars for our Growth Plans***

Our volumetric real time imaging sonar technology and our DAVD are our most promising products for the Group’s near-term growth.

Our real time 3D/4D/5D/6D imaging sonars are the only underwater imaging sonars capable of providing not only complex seabed mapping but inspecting and monitoring in real time 3D/4D/5D and 6D moving objects underwater irrespective of water conditions including in zero visibility water conditions (a perennial problem in underwater operations). Competing technology can perform mapping (but not complex mapping) without the ability to perform real time 3D inspection, placement and monitoring of moving objects underwater. Furthermore, we believe our Echoscope PIPE<sup>®</sup> is the only technology that can generate multiple real time 3D/4D/5D and 6D acoustic images of moving objects underwater using different acoustic parameters such as frequency, field of view, pulse length and acoustic filters. Our previous generation of Echoscope<sup>®</sup> sonars are capable of imaging one underwater object in real time 3D whereas Echoscope PIPE<sup>®</sup> is capable of imaging multiple underwater objects simultaneously in real time 3D using different acoustic parameters such as range, frequency, field of view, pulse length and acoustic filters. Echoscope PIPE<sup>®</sup> enables the consolidation of imaging sensors. This new technology can generate different types of 3D images for different parts of the surveying team simultaneously. This improves productivity gains and also reduces operation costs.

In the industry in which we operate, we are widely considered the leading solution providers for underwater real time 3D visualization.

We also believe that the DAVD system is poised to radically change the way diving operations are performed globally by advancing the methods of communication, ability to consume and use digital information and real time imaging sonar data, thereby improving safety and reducing the costs of these operations. The DAVD is now in early-stage adoption by different teams within the US Navy such as the underwater construction and salvage teams. The concept of utilizing a pair of transparent glasses in the Head Up Display (HUD) underwater, is protected by patent. The DAVD HUD is manufactured and distributed by the Company under exclusive license from the United States Department of the Navy at Naval Surface Warfare Center Panama City Division. The other component parts of the DAVD system are proprietary to the Company and include software (4G USE<sup>®</sup>), Diver Processing Pack (DPP), Top Side Controller and real time 3D Sonar. Our most recent system, the GEN 3 DAVD, is an “Approved Navy Use” item. Barriers to the roll out of the DAVD and broader market adoption have been Pandemic-related. A pre-requisite of adoption is in person demonstration and training. Travel restrictions have hindered us since 2020. However, in the Current Quarter we have been getting more opportunities to travel and work with potential adopters of the technology.

Both the Marine Technology Business and Marine Engineering Business have established synergies in terms of customers and specialized engineering skill sets (hardware, firmware and software) encompassing capturing, computing, processing and displaying data in harsh environments. Both businesses jointly bid for projects for which their common joint skills provide competitive advantage and make them eligible for such projects.

#### **Factors Affecting our Business in the Current Quarter**

Our Form 10-K for the fiscal year ended October 31, 2021, covers factors affecting our business and are incorporated by reference herein. Set out immediately below are additional factors that affect our business in the Current Quarter:

#### **Cumulative Supply Chain Issues**

The biggest challenge for the Company in the Current Quarter is the ongoing shortage of components in the market. We are experiencing a very high percentage of unavailability of routine items required for the manufacture of our products and solutions and crippling lead times being quoted from anywhere between six months to a year. Furthermore, we are experiencing significant price increases for all our raw materials and components. Price increases sometimes exceed 100%. The significant price increases

may adversely impact on our margins and net income, unless these increased prices are fully absorbed by customers. The unavailability of components and raw materials may also affect the utilization of our production staff and increase our cost of operations. Unless we have raw materials for the manufacture of our products available, we cannot manufacture systems.

The general shortage of components in the market impacts our Services Business more acutely given the prototyping nature of its business which does not lend itself to pre-emptive forward buying. The very nature of prototyping means that any requisite components are unknown until the prototype requirements are finalized and an order is placed by the customer. Therefore, these components cannot be pre-emptively purchased until contract award or a letter of intent is received.

Additionally, our customers are also experiencing supply chain problems. This impacts on their ability to progress to the point of placing orders for the sub-assemblies that we typically design and manufacture for them. Consequently, this delays orders and impacts the level of order take by the Business.

### ***Pandemic***

Our operations continue to be impacted by the ongoing Coronavirus outbreak with its various mutations (“Pandemic”), which in turn continues to impact the demand for our goods and services. The main impacts of the Pandemic in the Current Quarter are constraints on travel to key countries for business development and also an increase in the number of employees off work due to the infection which also increases our operations costs. While some Asian countries, including Japan, have started to allow foreigners to visit, there are still many pre-visit compliance processes that result in significant travel constraints. For example, China still has a 10-day quarantine period which makes it very challenging to visit our customers for business development with this quarantine policy in place.

### ***Inflation***

Inflation measured as the Consumer Price Index is significant in the countries in which the group’s foreign subsidiaries operate. In the twelve months to July 2022, these were:

- Denmark 8.7% - source: Statistics Denmark,
- UK 10.1% - source: Office of National Statistics; and
- USA 8.5% - source: U.S. Bureau of Labor Statistics.

Inflation affects our business in a number of areas including increasing the costs of our operations and therefore our overall financial results. See the section of the MD&A which concerns “Inflation and Foreign Currency”.

### ***Currency Fluctuations***

The Company has operations in the UK, USA, Denmark, Australia and India. In the Current Quarter the USD has strengthened against major currencies including the British Pound, Euro, Danish Kroner and Indian Rupees (the functional currencies of the Company’s foreign subsidiaries). A significant part of our consolidated results is transacted in British Pounds and translated into USD, our reporting currency. In the Current Quarter, for the purposes of reporting revenues and expenses, the value of the Pound and Euro respectively fell 11.8% and 12.6%, against the USD, when compared to the Previous Quarter. For the reporting of assets and liabilities, the Pound fell 12.4% when compared to the Previous Quarter. The impact of currency fluctuations, including the impact of the Pound falling, is discussed more fully below in the section which concerns “Inflation and Foreign Currency”. See also Note 4 (Foreign Currency Translation) and the section of this report which concerns “Inflation and Foreign Currency” and also Note 14 and 15 (Segment Analysis and Disaggregation) showing more detailed information on each Segment financial results and the disaggregation of our revenues by geography.

### ***Skills/Resource Shortages and Pressure on Salaries and Wages***

We are experiencing skill shortages in areas that are critical to our growth strategy including experienced sales and marketing personnel and software developers. Due to the inflationary conditions in the countries in which we operate (US, the UK, Denmark and India), there are significant pressures on wages making it difficult to attract staff and also risking retention of skills.

### ***Impact on Revenues and Earnings***

We are uncertain as to the extent that the factors reported immediately above and those on our Form 10-K for the fiscal year ended October 31, 2021 will have on our future financial results. Inflation may increase the cost of operations including wages and salaries and the increase in raw materials and components may affect our gross profit margins negatively and our overall financial results. The unavailability of components may result in under-utilization of our resources or delay in converting orders into revenues, which in turn may increase the cost of operations. Overall, inflation, shortage of components and currency fluctuations may adversely impact on our financial results.

### ***Impact on Liquidity, Balance Sheet and Assets***

Failure to curb the Pandemic in the near future, or address inflation and the global supply chain issues may adversely affect the availability of our free cash flow, working capital, earnings and business prospects. As of July 31, 2022, we had cash and cash equivalents of approximately \$21,370,920. Based on our outstanding obligations and our cash balances, we believe we have sufficient working capital to effectively continue our business operations for the foreseeable future.

### ***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 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 for the year ended October 31, 2021.

### ***Revenue Recognition***

Our revenues are earned under formal contracts with our customers and are derived from both sales and rental of underwater solutions for imaging, mapping, defense and survey applications and from the engineering services that we provide. Our contracts do not include the possibility for additional contingent consideration so that our determination of the contract price does not involve having to consider potential variable additional consideration. Our product sales do not include a right of return by the customer.

Regarding our Products Segment, all of our products are sold on a stand-alone basis and those market prices are evidence of the value of the products. To the extent that we also provide services (e.g., installation, training, etc.), those services are either included as part of the product or are subject to written contracts based on the stand-alone value of those services. Revenue from the sale of services is recognized when those services have been provided to the customer and evidence of the provision of those services exist.



For further discussion of our revenue recognition accounting policies, refer to Note 2 – “Revenue Recognition” in these consolidated financial statements and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2021.

#### *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 on a contract-by-contract basis in accordance with our revenue recognition policy. 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 also 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.

28

#### *Income Taxes*

The Company accounts for income taxes in accordance with Accounting Standards Codification Topic 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.

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 US 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 15 years. The Company amortizes its limited lived intangible assets using the straight-line method over their estimated period of benefit. Annually, or sooner if there is indication of a loss in value, we evaluate the recoverability of intangible assets and consider events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, goodwill is reduced by the excess of the carrying amount of the reporting unit over that reporting unit’s fair value. Goodwill can never be reduced below zero. 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.

#### **Summary of Consolidated Results of Operations in the Current Quarter**

Our consolidated financial results in the Current Quarter were up on the Previous Quarter. This is attributed to an increase in our revenues by 7.6% in conjunction with a fall in total operating expenses by 12.1%. Income from Operations increased by 53% and net income before tax increased by 54.8% and was \$2,043,457 in the Current Quarter compared to \$1,320,248 in the Previous Quarter. In the Current Quarter although we recorded a tax expense of \$274,800 compared to a tax benefit of \$200,838 in the Previous Quarter, net income increased by 16.3% and was \$1,768,657 compared to \$1,521,086. We also recorded a higher loss on foreign currency translation adjustments, which affect Comprehensive Income, of \$805,157 compared to a loss of \$260,681 in the Previous Quarter. During the Current Quarter, the USD, our reporting currency strengthened significantly against major currencies including the functional currencies of our foreign subsidiaries which make up a significant part of our consolidated results. See Note 4 (Foreign Currency Translation) and the section of the MD&A which concerns “Inflation and Foreign Currency”.

#### **Segment Summary**

##### ***Products Business***

In the Current Quarter, the Products Business generated \$4,004,557 or 63.9% of our consolidated revenues compared to \$3,845,051 or 66% in the Previous Quarter, representing an increase of 4.1%. Gross Profit Margin increased and was 86.7% in the Current Quarter compared to 85.8% in Previous Quarter. In the Current Quarter we sold less units through agents which resulted in a reduction in commissions on sales. We recorded \$33,001 for commission in the Current Quarter compared to \$61,540 in the Previous Quarter, representing a reduction of 46.4% in commission. This modestly improved our margins in the Current Quarter. In the Current Quarter Total Operating Expenses fell in the Products Business by 4.7% and was \$1,337,057 compared to \$1,403,226 in the Previous Quarter. Net income before taxes increased by 13.2% and was \$2,149,724 compared to \$1,899,552 in the Previous Quarter.

##### ***Services Business***

In the Current Quarter, the Services Business generated \$2,262,852 or 36.1% of our consolidated revenues compared to \$1,982,324 or 34% in the Previous Quarter, representing an increase in sales of 14.2%. Gross Profit Margin was 48.2% compared to 46.0%, representing an increase of 2.2%. Total Operating Expenses fell by 11.1% and was \$672,916 compared to \$757,089. In the Current Quarter the Services Business realized net income before taxes of \$421,631 compared to \$155,164 in the Previous Quarter, representing an increase of 171.7%.

29

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

**Revenue:** Total consolidated revenues for the Current Quarter and the Previous Quarter were \$6,267,409 and \$5,827,375 respectively, representing an increase of 7.6%. The Products Business revenues increased by 4.1% over the Previous Quarter and the Services Business revenues increased by 14.2% over the Previous Quarter.

**Gross Profit Margins:** Margin percentage was slightly stronger in the Current Quarter at 72.8% (gross profit of \$4,562,644 compared to 72.3% (gross profit of \$4,212,409) in the Previous Quarter.

Gross Profit Margins in the reporting period may vary according to a number of factors. These include:

- The percentage of consolidated sales attributed to the Products Business. The Gross Profit Margin yielded by the Products Business is generally higher than that of the Services Business.
- The percentage of consolidated sales attributed to the Services Business. The Services Business yields a lower gross profit margin on generated sales which are largely based on time and materials contracts.
- The mix of sales generated by the Products Business:
  - Outright sales versus rentals.
  - Hardware related sales versus Software related sales.
  - Extent of Offshore Engineering Support Services provided in the period.
  - Extent of paid customer engineering work relating to customizing our technology for these customers' requirements.
- Level of commissions on sales (both the Services and Products businesses work with a global network of sales agents). Most sales by the Products Business from Asia attract commission as those are typically sales via our agents/distributors network. See Notes 14 & 15 to the Unaudited Consolidated Financial Statements for more information covering Segment reporting and the disaggregation of our revenues by type and geography.
- Level of assets in the rental pool and cost of sales associated with these Rental Assets (and which are subject to depreciation).

#### Services Business

In the Current Quarter Gross Profit Margins for the Services Business were 48.2% compared to 46.0% in the Previous Quarter reflecting more units of manufacturing than engineering design work packages in the Current Quarter.

#### Products Business

In the Current Quarter Gross Profit Margins for the Products operations were stronger in the Current Quarter at 86.7% compared to 85.8% in the Previous Quarter.

Since there are more variable factors affecting Gross Profit Margins in the Products Business, a table showing a summary of break-out of sales generated by the Products Business in the Current Quarter compared to the Previous Quarter is set out below:

	Current Quarter Products	Previous Quarter Products	Percentage Change
Equipment Sales	\$ 2,928,019	\$ 2,151,520	Increase 36.1%
Equipment Rentals	380,984	713,389	Decrease 46.6%
Software Sales	252,204	153,150	Increase 64.7%
Services	443,350	826,992	Decrease 46.4%
<b>Total Net Sales</b>	<b>\$ 4,004,557</b>	<b>\$ 3,845,051</b>	<b>Increase 4.1%</b>

In the Current Quarter, the Products Business incurred commission costs of \$33,001 compared to \$61,540 in the Previous Quarter, representing a 46.4% fall, which improved Gross Profit Margins in the Current Quarter.

Further information on the performance of each Segment including revenues by product and geography in the Current Quarter can be found in Notes 14 and 15 to the unaudited Consolidated Financial Statements.

**Research and Development (R&D):** Total consolidated Research and Development expenditures for the Current Quarter were \$577,953 compared to \$675,766, representing a decrease of 14.5%. The decrease is largely due to a decrease in these expenditures in the Services Segment. This is discussed more fully below.

- *Services Segment.*

During the Current Quarter the Services Business R&D expenditures were (\$27,904) compared to \$135,213 in the Previous Quarter. This amount attributed to R&D in the Current Quarter concerns an initial investment made by the Company in R&D that can now be attributed to subsequently awarded customer contract. In general, the fall in R&D expenditures in this business unit reflects a reduction in expenditures relating to the Thermite<sup>®</sup> product line development which had slowed due to the Pandemic. We are now re-engaging our customers who had the Thermite<sup>®</sup> on trial. One such trial which had stalled due to the Pandemic has re-started and we have received the order for a small quantity of prototypes. This is an important opportunity for the success of the Thermite<sup>®</sup> range since it is for a US Navy shipboard application and if we are successful would lead to downstream follow-on production order for multiple units. This would also be a new program and customer for the Services Segment. As we gain momentum on the Thermite and start to realize orders, we anticipate that R&D expenditures in this area will gradually increase.

- *Products Segment*

During the Current Quarter the Products Business R&D expenditures increased by 12.1% and were \$605,857 as compared to \$540,553 in the Previous Quarter. R&D expenditures are incurred by this business in connection with investments it makes in developing its products and solutions. These expenditures are an essential part of our business, as we need to continue to innovate around our solutions on an ongoing basis. Furthermore, in the Current Quarter the Product's Segment R&D expenditures include an exceptional item of expenditure of \$104,000 which represents accruals for sub-contractor's costs for development of a new generation of an ASIC (Application-Specific Integrated Circuit) device for our sonar technology.

Segment	July 31, 2022	July 31, 2021	Percentage Change
Services Segment R&D Expenditures	\$ (27,904)	\$ 135,213	Decrease 120.6%
Products Segment R&D Expenditures	\$ 605,857	\$ 540,553	Increase 12.1%

**Selling, General and Administrative Expenses (SG&A):** SG&A expenses for the Current Quarter fell by 11.4% and was \$1,960,978 compared to \$2,213,821 in the Previous Quarter.

The fall in SG&A in the Current Quarter is largely due to a reduction in the Legal and Professional Fees by 22.5% and the recording of a significantly lower non-cash charge relating to stock compensation, which was \$285,104 as compared to \$451,629 in the Previous Quarter, representing a 36.9% reduction.

Within the category of SG&A we have transactions which are cash charges and non-cash charges. The non-cash charges comprise Depreciation, Amortization and Stock-based

compensation charges. In the Current Quarter non-cash items as a percentage of SGA expenses was 21.2% compared to 26.9% in the Previous Quarter.

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

Expenditure	July 31, 2022	July 31, 2021	Percentage Change
Wages and Salaries	\$ 983,029	\$ 871,571	Increase of 12.8%
Legal and Professional Fees (including accounting and audit)	\$ 200,268	\$ 258,309	Decrease of 22.5%
Rent for our various locations	\$ 15,389	\$ 13,006	Increase of 18.3%
Marketing	\$ 58,684	\$ 23,879	Increase of 145.8%

The increase in “Wages and Salaries” reflects the increased costs associated with the market conditions for employment. With inflationary pressures currently at unprecedented levels in the countries in which we operate including the USA and UK, we expect this area is likely to continue to increase to remain competitive in retaining and attracting staff.

The decrease in the Current Quarter of “Legal and Professional” category of expenditures results from an adjustment in audit fees by \$125,000 in the Current Quarter reflecting adjustment in our UK auditors’ fees.

In general, the category of “Rent” is not material for the Company as we own most of our premises and facilities. The current category of rent largely reflects our premises in Copenhagen which has been established to mitigate, as far as possible, the impact of the United Kingdom withdrawing from the European Union.

The Marketing Expenditures in both the Current Quarter and Previous Quarter are atypical of our projected Marketing Expenditures. Typically, our Marketing Expenditures reflect a range of marketing events such as participation in trade shows in different parts of the world, particularly in Europe, North America, Asia and the Middle East. Since the onset of the Pandemic in 2020, our marketing activities have been severely constrained due to the prevailing Pandemic-related travel restrictions on these countries resulting in decreased expenditures in this area. However, we are beginning to participate in more marketing events, and this has resulted in an increase of Marketing expenditures in the Current Quarter. We expect this area to materially increase as we have shifted a large part of our focus from R&D to business development and brand building.

**Operating Income:** In the Current Quarter Operating Income increased by 53% and was \$2,023,713 compared to \$1,322,822 in the Previous Quarter. The increase in Operating Income is a result of an increase in our consolidated revenues in the Current Quarter by 7.6% compared to the Previous Quarter along with a reduction in Total Operating Expenses of 12.1% compared to the Previous Quarter.

**Interest Expense:** The Company paid no interest in the Current Quarter compared to interest expense of \$6,145 in the Previous Quarter, representing a 100% reduction in this area of expenditure. In the Previous Quarter, the HSBC NA loan was still outstanding. We have since repaid these amounts in full and as such we do not expect this category to be material.

**Other Income:** In the Current Quarter, we had \$19,744 as “Other Income” compared to \$3,571 in the Previous Quarter. In the Current Quarter the amounts in Other Income reflect payments received for renting a surplus car parking space and also use of the Company’s apartment when not used by staff members.

**Net Income before income taxes:** In the Current Quarter, we realized Net Income before income taxes of \$2,043,457 as compared to \$1,320,248 in the Previous Quarter, representing an increase of 54.8%. The increase in net income before taxes is due to an increase in our consolidated revenues in the Current Quarter of 7.6% with Gross Profit Margins being stronger, in conjunction with a decrease in Total Operating Expenses by 12.1% over the Previous Quarter.

**Net Income:** In the Current Quarter, the Company realized net income of \$1,768,657 as compared to \$1,521,086 in the Previous Quarter, representing an increase of 16.3%, even though the Company recorded an Income Tax Expense of \$274,800 compared to an Income Tax Benefit of \$200,838 in the Previous Quarter. The increase in net income is a result of an increase in our consolidated revenues by 7.6% in conjunction with a decrease in Total Operating Expenses by 12.1% in the Current Quarter compared to the Previous Quarter.

**Comprehensive Income (loss).** In the Current Quarter, Comprehensive Income was \$963,500 compared to \$1,260,405 for the Previous Quarter reflecting significant adjustments resulting from foreign currency translations. This category is affected by fluctuations in foreign currency exchange transactions both relating to our profit and loss expenses and valuation of our assets and liabilities comprised within our balance sheet. In the Previous Quarter we realized a loss on foreign currency translation adjustments relating to these transactions of \$260,681 compared to a loss on these transactions in the Current Quarter of \$805,157. In the Current Quarter the USD has strengthened against major currencies including the British Pound, Euro, Danish Kroner and Indian Rupees (the functional currencies of our foreign operations). A substantial part of these losses are paper losses associated with re-valuation of our foreign subsidiaries balance sheet. A significant part of the Company’s operations is based in the UK, and therefore a significant part of our financial transactions is performed in Pounds which are translated into USD for reporting purposes. In the Current Quarter, the Pound has fallen significantly against the USD. This is a key factor in the loss relating to foreign currency translations transactions in the Current Quarter. See Table 1 under the section which concerns “Inflation & Foreign Currency” which shows the impact of the currency adjustments on the Income Statement and the Balance Sheet in the Current Quarter compared to the Previous Quarter.

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

**Revenue:** Total consolidated revenues for the Current Nine Month Period and the Previous Nine Month Period were \$17,090,455 and \$16,250,910 respectively, representing an increase of 5.2%. In the Current Nine Month Period, the Products Business revenues were \$11,319,314 compared to \$11,777,739, representing a 3.9% reduction over the Previous Nine Month Period. The Services Business revenues in the Current Nine Month Period and the Previous Nine Month Period were 5,771,141 and \$4,473,171, representing an increase of 29%.

**Gross Profit Margins:** Consolidated Margin percentage was lower in the Current Nine Month Period at 68.8% (gross profit of \$11,754,284) compared to 69.4% (gross profit of \$11,276,935). This is largely because Gross Profit Margins for the Services Business for the Current Nine Month Period was lower at 40.8% compared to 43.8% in the Previous Nine Month Period. This is discussed more fully below.

Gross Profit Margins in the reporting period vary according to several factors, including:

- The percentage of consolidated sales attributed to the Products Business. The Gross Profit Margin yielded by the Products Business is generally higher than that of the Services Business.
- The percentage of consolidated sales attributed to the Services Business. The Services Business yields a lower gross profit margin on generated sales which are largely based on time and materials contracts.
- The mix of sales generated by the Products Business:
  - Outright sales versus rentals.
  - Hardware related sales versus Software related sales.
  - Extent of Offshore Engineering Support Services provided in the period.
  - Extent of paid customer engineering work relating to customizing our technology for these customers’ requirements.

- Level of commissions on sales (both the Services and Products businesses work with a global network sales agents). Most sales from Asia attract commission as those are typically sales via our Products Operations agents/distributors network. See Notes 14 & 15 to the Unaudited Consolidated Financial Statements for more information covering Segment reporting and the disaggregation of our revenues by type and geography.
- Level of assets in the rental pool and cost of sales associated with these Rental Assets (and which are subject to depreciation).

### Services Business

Gross Profit Margins for the Services Business were lower at 40.8% in the Current Nine Month Period compared to 43.8% in the Previous Nine Month Period. In the Current Nine Month Period 24.8% of the Services Business revenues (\$1,431,414) is attributable to an engineering project which carries a lower than typical Gross Profit Margin. This project has afforded the Company an opportunity to serve a new market sector (motor racing) with a prestigious customer which we believe will open other opportunities with this customer and in this sector. This mix has impacted on the overall Gross Profit Margins of the Services Business

### Products Business

Gross Profit Margins for the Products Business were higher in the Current Nine Month Period at 83.0% compared to 79.1% in the Previous Nine Month Period. In the Current Nine Month Period more units of sales were made via our agents' network which resulted in an increase in commissions which were 3.5% higher at \$434,005 in the Current Nine Month Period compared to \$419,276 in the Previous Nine Month Period, which marginally impacted margins in the Products Business.

Since there are more variable factors affecting Gross Profit Margins in the Products Business, a table showing a summary of break-out of sales generated by the Products Business in the Current Nine Month Period compared to the Previous Nine Month Period is set out below:

	Nine Month Period 2022	Nine Month Period 2021	Percentage Change
Equipment Sales	\$ 6,945,001	\$ 8,035,469	Decrease 13.6%
Equipment Rentals	1,726,760	1,645,942	Increase 4.9%
Software Sales	691,422	599,425	Increase 15.3%
Services	1,956,131	1,496,903	Increase 30.7%
Total Net Sales	\$ 11,319,314	\$ 11,777,739	Decrease 3.9%

In the Current Nine Month Period, the Products Business incurred commission costs of \$434,005 compared to \$419,276, representing a 3.5% increase.

Further information on the performance of each Segment including revenues by product and geography can be found in Notes 14 and 15 to the unaudited Consolidated Financial Statements.

**Research and Development (R&D):** R&D expenditures in the Current Nine Month Period were \$1,768,221 compared to the \$1,904,186 in the Previous Nine Month Period, representing a decrease of 7.1%.

- *Services Segment.*

During the Current Nine Month Period, the Services Business R&D expenditures decreased by 95.9%. In general, the fall in R&D expenditures in this business unit is a reflection of reduction in expenditures relating to the Thermite® product line development which had slowed due to the Pandemic. We are now re-engaging our customers who had the Thermite® on trial. One such trial which had stalled due to the Pandemic has re-started and we have received the order for a small quantity of prototypes. This is an important opportunity for the success of the Thermite® range since it is for a US Navy shipboard application and if we are successful would lead to downstream follow-on production order for multiple units. This would also be a new program and customer for the Services Segment. As we gain momentum on the Thermite and start to realize orders, we anticipate that R&D expenditures in this area will gradually increase.

- *Products Segment*

During the Current Nine Month Period R&D expenditures in the Products Segment increased by 15.2% from \$1,521,175 in the Previous Nine Month Period to \$1,752,478. R&D expenditures are incurred by this business in connection with investments it makes in developing its products and solutions. These expenditures are an essential part of our business, as on an ongoing basis we need to continue to innovate around our solutions. In the Current Nine Month Period, Products Business R&D expenditures include an exceptional item of expenditure of \$170,000 which represents accruals for sub-contractor's costs for development of a new generation of an ASIC (Application-Specific Integrated Circuit) device for our sonar technology.

Segment	July 31, 2022	July 31, 2021	Percentage Change
Services Segment R&D Expenditures	\$ 15,743	\$ 383,011	Decrease of 95.9%
Products Segment R&D Expenditures	\$ 1,752,478	\$ 1,521,175	Increase of 15.2%

**Selling, General and Administrative Expenses (SG&A):** SG&A expenses for the Current Nine Month Period increased to \$6,116,085 from \$5,824,046 in the Previous Nine Month Period, representing an increase of 5.0%.

The increase in SG&A in the Current Nine Month Period is due to several factors. These include increase in wages and salaries and increase in Legal and Professional Fees. In addition, in the Previous Nine Month Period we recorded contributions of \$131,788 under the UK Government's Pandemic Relief Program, the Coronavirus Job Retention Scheme (CJRS) which reduced payroll expenditures in the Previous Nine Month Period and therefore SG&A. In the Current Nine Month Period, we recorded no such contributions.

SG&A includes transactions which are cash charges and non-cash charges. The non-cash charges comprise Depreciation, Amortization and Stock-based compensation charges. In the Current Nine Month Period non-cash items as a percentage of SGA was 26.6% compared to 27.4% in the Previous Nine Month Period.

In the Current Nine-Month Period, stock compensation expenditures (a non-cash charge) increased by 28.2% and were \$975,847 compared to \$761,233 in the Previous Nine Month Period.

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

Expenditure	July 31, 2022	July 31, 2021	Percentage Change
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Wages and Salaries	\$	2,826,651	\$	2,501,636	Increase 13.0%
Legal and Professional Fees (including accounting and audit)	\$	949,504	\$	853,154	Increase 11.3%
Rent for our various locations	\$	45,876	\$	31,289	Increase 46.6%
Marketing	\$	210,057	\$	67,325	Increase 212.0%

In the Previous Nine Month Period, “Wages and Salaries” included \$131,788 which reflected the contributions under the UK Government’s CJRS scheme. In real terms therefore this category of expenditures has increased by 7.34% in the Current Nine Month Period when compared to the Previous Nine Month Period. In the Current Nine Month Period our management head count has increased to reflect that we now have a divisional CEO of our Services Business in Utah and also a new CFO. In the Previous Nine Month Period, these roles were consolidated and performed by our Previous CFO. Going forward therefore wages and salaries will reflect this increase in Management salaries.

The increase in the “Legal and Professional” category of expenditures in the Current Nine Month Period reflects an increase in the costs of our accounting and audit services fees as we have added additional resources to this area of our business.

In general, the category of “Rent” is not material for the Company as we own most of premises and facilities. The current category of rent largely reflects our premises in Copenhagen and storage facility that we maintain for our business operations.

Our marketing comprises a raft of activities which include trade shows in different parts of the world, particularly in Europe, North America, Asia and the Middle East. In the Previous Nine Month Period our marketing activities had been severely constrained due to the Pandemic which prevented activities such as travel to customer or attending trade shows. We are now participating in more marketing related events. However, we are still significantly constrained and not back to pre-Pandemic levels of marketing activities due to the ongoing Pandemic-related constraints as they pertain to travel to key countries such as those in Asia where there are still significant restrictions on foreigners entering these countries. The nature of our offerings, particularly our technology solutions require us to be in close proximity with our customers including being able to physically demonstrate the performance of our solutions. Therefore, virtual meetings cannot substitute for the key requirements to be physically able to demonstrate our capabilities on water in the customer’s place of operation. As these barriers are removed including entry restrictions into these countries, we anticipate that this area of expenditures will materially increase and be more in line with our pre-Pandemic expenditures.

**Operating Income:** Our income from our operating activities in the Current Nine Month Period was \$3,869,978 as compared to \$3,548,703 in the Previous Nine Month Period which represents an increase of 9.1%. This reflects an increase in our revenues by 5.2% in the Current Nine Month Period over the Previous Nine Month Period.

**Interest Expense:** Interest expense in the Current Nine Month Period was \$2,902 compared to \$17,442 in the Previous Nine Month Period, representing a reduction of 83.4%. In the Previous Nine Month Period, we had a loan outstanding to HSBC NA which attracted interest expense. This has now been repaid in full and therefore we do not expect Interest Expense to be material for our business as we do not have any significant loans. Going forward, this category will typically reflect charges on our banking facilities such as Business credit cards.

**Other Income:** In the Current Nine Month Period, we had Other Income of \$114,236 as compared to \$723,942 in the Previous Nine Month Period. In the Previous Nine Month Period Other Income included \$648,872 reflecting Pandemic-related contributions under the PPP. In the Current Nine Month Period, there are no such contributions. Without such contributions, this category is generally not material.

**Net Income before income taxes:** In the Current Nine Month Period, we had a net income before income taxes of \$3,981,312 as compared to \$4,255,203 in the Previous Nine Month Period, representing a fall of 6.4%. This fall is largely because in the Previous Nine Month Period net income before income taxes increased by the inclusion of \$648,872 in “Other Income” which represented assistance received under the PPP. Without this PPP contribution in the Previous Nine Month Period, net income before income taxes in the Current Nine Month Period increased by 10.4%.

**Net Income:** In the Current Nine Month Period net income fell by 26.0 % to \$3,597,208 from \$4,857,863 in the Previous Nine Month Period. There are two factors which account for this reduction. In the Previous Nine Month Period net income increased by the inclusion of \$648,872 in “Other Income” which represented assistance received under the PPP and in the Previous Nine Month Period we had a tax benefit of \$602,660 compared to a tax expense of \$384,104 in the Current Nine Month Period.

**Comprehensive Income (loss).** In the Current Nine Month Period Comprehensive income was \$766,450 compared to Comprehensive Income of \$5,821,507 for the Previous Nine Month Period reflecting significant adjustments resulting from foreign currency translations. This category is affected by fluctuations in foreign currency exchange transactions both relating to our profit and loss expenses and valuation of our assets and liabilities on our balance sheet. In the Previous Nine Month Period we had a gain of \$963,644 on foreign currency translation adjustment transactions compared to a loss on these transactions of \$2,830,758 in the Current Nine Month Period. In the Current Nine Month Period, the USD has strengthened against most major currencies including the British Pound, Euro, Danish Kroner and Indian Rupees (the functional currencies of our foreign subsidiaries). A substantial part of these losses are paper losses associated with re-valuation of our foreign subsidiaries balance sheet. A significant part of the Company’s operations is based in the UK, and therefore a significant part of our financial transactions is performed in Pounds which are translated into USD for reporting purposes. In the Current Nine Month Period, the Pound has fallen significantly against the USD. This is a key factor in the reduction relating to foreign currency translations transactions in the Current Nine Month Period. See Table 2 under the section which concerns “Inflation & Foreign Currency” which shows the impact of the currency adjustments on our Income Statement and Balance Sheet in the Current Nine Month Period compared to the Previous Nine Month Period.

### Liquidity and Capital Resources

At July 31, 2022, the Company had an accumulated deficit of \$14,880,649, working capital of \$32,781,206 and stockholders’ equity of \$42,791,370. For the Nine Months Ended July 31, 2022, the Company’s operating activities provided cash of \$6,337,905.

### 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 Loan was satisfied in full on December 28, 2021.

#### Revolving Credit Line

The Company entered into a \$4,000,000 revolving line of credit with HSBC Bank NA on November 27, 2019 (renewed up to November 2022), with interest at the prime rate. The outstanding balance on the line of credit was \$0 as of July 31, 2022.

### Inflation and Foreign Currency

The Company maintains its books in functional currency. In this connection these are:

- US Dollars for US Operations;

- British Pound for United Kingdom Operations;
- Danish Kroner for our Danish Operations;
- Australian Dollars for our Australian Operations
- Indian Rupees for our Indian Operations

Fluctuations in currency exchange rates can affect the Company's sales, profitability, balance sheet valuation and financial position when the foreign currencies of its international operations are translated into US 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.

35

The impact of currency fluctuations on the three months and nine months ended July 31, 2022, is shown in Table 1 and Table 2 below.

For the purpose of Table 1 "Constant Rates" is defined as the prevailing exchange rate for balance sheet transactions in the Previous Quarter and weighted average exchange rate prevailing in the Previous Quarter for related revenues and expenses.

Table 1: Three Months ended July 31, 2022

	British Pounds		Australian Dollar		Danish Kroner		Indian Rupee		US Dollar		Total Effect
	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	
Revenues	2,779,524	3,005,172	-	-	392,743	431,641	-	-	3,172,267	3,436,814	(264,547)
Costs	2,116,993	2,288,856	(123)	(130)	(9,993)	(10,983)	32,751	22,505	2,139,628	2,300,348	(160,720)
Net profit (losses)	662,531	716,317	123	130	402,736	442,624	(32,751)	(22,605)	1,032,639	1,136,465	(103,826)
Assets	21,542,823	24,597,369	31,814	33,412	3,003,536	3,488,577	13,785	14,597	24,591,958	28,133,955	(3,541,997)
Liabilities	(1,552,446)	(1,772,567)	(2,392)	(2,512)	(51,832)	(60,202)	(89,270)	(94,525)	(1,695,940)	(1,929,806)	233,866
Net assets	19,990,377	22,824,802	29,422	30,900	2,951,704	3,428,375	(75,485)	(79,928)	22,896,018	26,204,149	(3,308,131)

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, decreased our net income on activities in the Current Quarter by \$103,826 and decreased net assets by \$3,308,131.

Table 2: Nine Months ended July 31, 2022

The impact of currency fluctuations on the nine months ended July 31, 2022, is shown below. In this context "Constant Rates" is defined as the prevailing exchange rate for balance sheet transactions in the Previous Nine Month Period and weighted average exchange rate prevailing in the Previous Nine Month Period for related revenues and expenses.

	British Pounds		Australian Dollar		Danish Kroner		Indian Rupee		USD		Total Effect
	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	
Revenues	8,595,643	9,177,322	-	-	1,482,305	1,632,822	-	-	10,077,948	10,810,144	(732,196)
Costs	6,908,773	7,376,297	24,450	25,970	99,033	109,089	7,673	7,916	7,039,929	7,519,272	(479,343)
Net profit (losses)	1,686,870	1,801,025	(24,450)	(25,970)	1,383,272	1,523,733	(7,673)	(7,916)	3,038,019	3,290,872	(252,853)
Assets	21,542,823	24,597,369	31,814	33,412	3,003,536	3,488,577	13,785	14,597	24,591,958	28,133,955	(3,541,997)
Liabilities	(1,552,446)	(1,772,567)	(2,392)	(2,512)	(51,832)	(60,202)	(89,270)	(94,525)	(1,695,940)	(1,929,806)	233,866
Net assets	19,990,377	22,824,802	29,422	30,900	2,951,704	3,428,375	(75,485)	(79,928)	22,896,018	26,204,149	(3,308,131)

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, decreased our net income in the Current Nine Months Period by \$252,853 and decreased net assets by \$3,308,131.

#### 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 July 31, 2022. 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 reporting period covered by this report.

36

**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**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information****Item 6. Exhibits**

- 31 [Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14\(a\)](#)
- 32 [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](#)
- 101.INS Inline XBRL Instance Document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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37

**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: September 14, 2022

/s/ Annmarie Gayle  
Annmarie Gayle  
Chief Executive Officer

Date: September 14, 2022

/s/ Nathan Parker  
Nathan Parker  
Chief Financial Officer

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38

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

I, *Anmarie Gayle*, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended July 31, 2022;
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: September 14, 2022

By: /s/ Anmarie Gayle

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

**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, *Nathan Parker*, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended July 31, 2022;
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: September 14, 2022

*/s/ Nathan Parker*

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Nathan Parker

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 July 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Annmarie Gayle, Chief Executive Officer of the Company, and Nathan Parker, 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: September 14, 2022

*/s/ Annmarie Gayle*

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

*/s/ Nathan Parker*

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Nathan Parker  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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