

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2022

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

Commission file number: 001-38154

CODA OCTOPUS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3300 S Hiwassee Rd, Suite 104-105, Orlando, Florida, 32835
(Address, Including Zip Code of Principal Executive Offices)

407 735 2406
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:
COMMON STOCK, \$0.001 PAR VALUE PER SHARE

Securities registered under Section 12(g) of the Exchange Act:
NONE

- Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
- Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
- Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 or a smaller reporting company.
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 Act). Yes No
- State issuer's revenues for its most recent fiscal year: \$22,225,803.
- State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of April 30, 2022 representing the last business day of the registrant's most recently completed second fiscal quarter: approximately \$27,144,477
- State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 10,942,353 as of January 19, 2023.

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FORWARD-LOOKING STATEMENTS

This Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this annual report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this annual report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project” and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management’s beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this annual report. Factors that can cause or contribute to these differences include those described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this annual report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us, or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this annual report, which would cause actual results to differ before making an investment decision. We are under no duty to update any of the forward-looking statements after the date of this annual report or to conform these statements to actual results.

PART I

ITEM 1. BUSINESS

Overview

Coda Octopus Group, Inc. (“Coda” “the Company” or “we”), through its wholly owned subsidiaries, operates two distinct businesses:

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

Our Marine Technology Business is a technology solution provider to the subsea and underwater market. It owns key proprietary technology including real time volumetric imaging sonar technology and diving technology, both of which are applicable to the underwater defense and commercial markets. All innovation, 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® and Echoscope PIPE® are used primarily in the underwater construction market, offshore wind energy industry (offshore renewables), and offshore oil and gas, complex underwater mapping, salvage operations, dredging, bridge inspection, navigation of underwater hazard, port security, mining, fisheries, commercial and defense diving, and marine sciences sectors. Our diving technology marketed under the name “CodaOctopus® DAVD” (Diver Augmented Vision Display) addresses the global defense and commercial diving markets. It has the potential to radically change how diving operations are performed globally because it delivers real time information simultaneously to the divers underwater and their surface-based dive supervisors. It also allows diving operations to be performed in zero visibility water conditions which is a safety challenge for diving operations.

The Marine Technology Business operates through our wholly owned subsidiaries Coda Octopus Products Ltd (UK), Coda Octopus Products A/S (Denmark, Coda Octopus Products, Inc (Orlando) and Coda Octopus Products (India) Private Limited (India).

Our Marine Engineering Businesses are suppliers of embedded solutions and sub-assemblies which they design and manufacture and sell into mission critical integrated defense

systems such as the Close-In-Weapons System (CIWS). The Services Segment established its business in 1977 and has been supporting a number of significant defense programs for over 40 years, including Raytheon's CIWS and Northrop Grumman's Mine Hunting Systems Program. The Services Segment's business model entails designing sub-assembly prototypes which are utilized in broader defense programs. These prototypes contracts typically lead to contracts for the manufacture, repair and upgrade of these sub-assemblies. We are the sole source for the parts that we design and supply into these programs. This business model ensures recurring and long tail revenues since we continue to supply these parts, typically for the life of the program, which can span decades. Coda Octopus Colmek, Inc. and Coda Octopus Martech Ltd, qualify as a small business. This opens opportunity under state requirements to collaborate with Prime Defense Contractors on these programs. A significant part of the revenues generated by the Marine Engineering Business is usually highly concentrated and are derived from a small number of prime defense contractors such as Raytheon or Northrop. In any one year, between 20% to 30% of our consolidated revenues may be derived from these customers either alone or collectively.

The Services Segment operates through our wholly owned subsidiaries, Coda Octopus Colmek, Inc ("Colmek") based in Salt Lake City, Utah, and Coda Octopus Martech Limited ("Martech") based in Dorset, United Kingdom.

Cross-Group Synergies

Our Marine Technology Business and Marine Engineering Services Business have established synergies in terms of customers and specialized engineering skills for robust, rugged and repeated engineering solutions relating to data acquisition, data computation and display of the data. Increasingly drawing on each part of the business strengths, the Marine Technology Business and Marine Engineering Business work jointly on projects including responding jointly for tenders. We believe the Services Business is important to our overall growth strategy as it brings significant engineering depth for the onward development of our technology solutions offered by our Marine Technology Business. This also ensures more tight control over our intellectual property rights which are important for our market position in the space in which we operate.

Key Pillars for our Growth Plans

Our volumetric real time imaging sonar technology and our Diver Augmented Vision Display ("DAVD") are our most promising products for the Group's near-term growth.

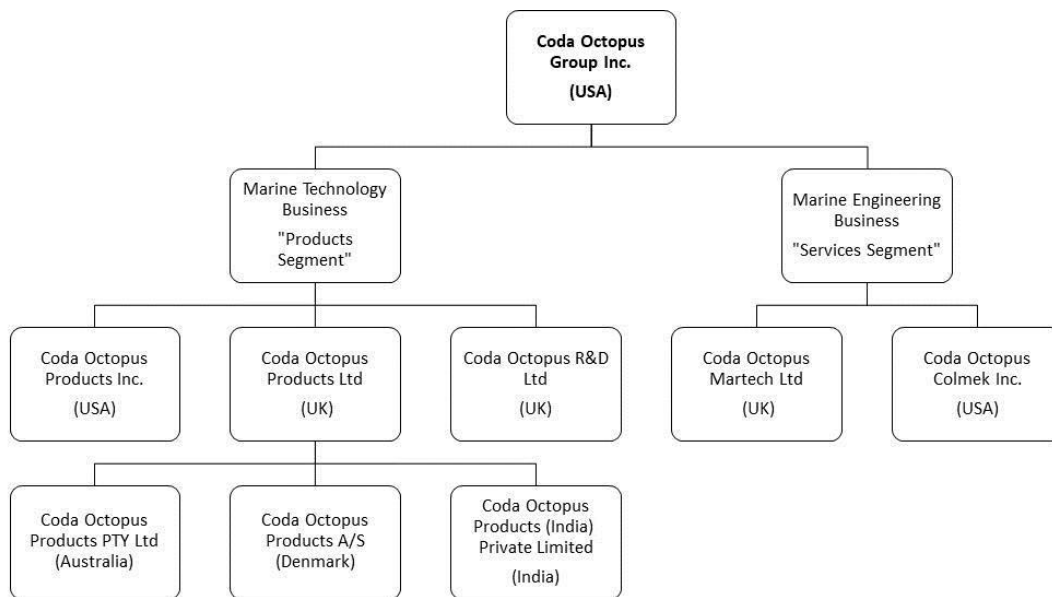
Our real time 3D/4D/5D/6D Imaging sonars are the only underwater imaging sonars which are capable of providing complex seabed mapping and real time inspection and monitoring and providing 3D/4D/5D/6D data of moving underwater objects irrespective of water conditions including in zero visibility water conditions (which is a common and costly problem in underwater operations). Competing technology can perform mapping (but not complex mapping) without the ability to perform real time inspection and monitoring of moving objects underwater. We also believe our Echoscope PIPE[®] is the only technology that can generate multiple real time 3D/4D/5D/6D acoustic images using different acoustic parameters such as frequency, field of view, pulse length, and filters.

Our customers include service providers to major oil and gas ("O&G") companies, renewable companies, underwater construction companies, law enforcement agencies, navies, ports, mining companies, defense bodies, diving companies, research institutes and universities. We are widely considered the leading solution providers for real time 3D visualization underwater.

We also believe that the DAVD system is poised to radically change the way commercial and defense diving operations are performed globally by providing real time data to both diver and surface supervisor simultaneously, 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 HUD (Head Up Display) concept is protected by patent and is manufactured and distributed under License from United States Department of the Navy at Naval Surface Warfare Center Panama City Division to the Company.

The DAVD can be used in combination with any of our imaging sonars and can also be used without our imaging sonars. Increasingly, opportunities which we identify are for combined use.

Our corporate structure is as follows:



Corporate History

The Company began as Coda Technologies Limited. This company now operates under the name Coda Octopus Products Limited, a United Kingdom corporation formed in 1994 as a start-up company with its origins as a research group at Herriot-Watt University, Edinburgh, Scotland. Initially, its operations consisted primarily of developing software for subsea mapping and visualization using sidescan sonar (a technology widely used in commercial offshore geophysical survey and naval mine-hunting to detect objects on, and textures of, the surface of the seabed).

In June 2002, we acquired Octopus Marine Systems Ltd, a UK corporation, and changed our name to Coda Octopus Limited. At the time of its acquisition, Octopus Marine

Systems was producing geophysical products broadly similar to those of Coda, but targeted at the less sophisticated, easy-to-use, “work-horse” market. The Octopus Marine Systems acquisition led to the introduction of the Motion product (F180[®] series) into the Products Segment.

In December 2002, Coda Octopus Ltd acquired OmniTech AS, a Norwegian company, which became a wholly owned subsidiary of the Company, and which subsequently changed its name to Coda Octopus R&D AS. OmniTech owned the patents to a “method for producing a 3-D Image” (which has now expired). At the time of acquisition, this company had been engaged for over ten years in developing a revolutionary imaging sonar technology capable of producing real time three-dimensional (“3D”) underwater images for use in subsea activities. Coda Octopus Products Limited (Edinburgh based) then developed the visualization software to control and display the images from the real time 3D sonar device. This patented technology is now marketed by us under the brand name “Echoscope[®]” and Echoscope PIPE[®]. All activities of this now-defunct Norwegian subsidiary, Coda Octopus R&D AS, have been transferred to Coda Octopus Products Limited (Edinburgh).

On July 13, 2004, the Company effected a reverse merger pursuant to the terms of a share exchange agreement between The Panda Project, Inc. (“Panda”), a Florida corporation, and a now defunct entity affiliated with Coda Octopus Ltd. (“Coda Parent”). Panda acquired the shares of Coda Octopus Limited, a UK corporation and a wholly-owned subsidiary of Coda Parent, in consideration for the issuance of a total of 1,432,143 shares of common stock to Coda Parent and other shareholders of Coda Octopus Limited. The shares issued represented approximately 90.9% of the issued and outstanding shares of Panda. The share exchange was accounted for as a reverse acquisition of Panda by Coda. Subsequently, Panda was reincorporated in Delaware and changed its name to Coda Octopus Group, Inc.

In June 2006, we acquired Coda Octopus Martech Limited which is part of our Services Segment or Marine Engineering Business. This is an English corporation.

In April 2007, we acquired Coda Octopus Colmek, Inc. which is part of our Services Segment or Marine Engineering Business. This is a Utah corporation.

Both Martech and Colmek largely have the same business model, provide similar engineering services and sell to a similar customer base (one is UK focused and the other is US focused).

In December 2013 Coda Octopus Products Limited established Coda Octopus Products Pty Ltd (Australia) to grow our presence in Australia and New Zealand. However, since 2020 we have not been able to do meaningful business development due to the closure of Australian borders because of the Coronavirus Pandemic and, more recently, challenges in restoring our activities effectively on the ground.

In 2017 Coda Octopus Products Limited established a subsidiary Coda Octopus Products A/S in Denmark as part of the mitigation strategy relating to the UK withdrawal from the European Union (See Item 7 “Management’s Discussion and Analysis...”).

In November 2021 Coda Octopus Products Limited established a subsidiary Coda Octopus Products (India) Private Limited intended to gain access to this market and to recruit critical resources for software development for our Company.

Coda Octopus Group, Inc., is organized under the laws of the State of Delaware as a holding company that conducts its business through subsidiaries, several of which are organized under the laws of foreign jurisdictions, including England, Scotland, Denmark, Australia and recently India. This may have an adverse impact on the ability of U.S. investors to enforce a judgment obtained in U.S. courts against these entities, or to effect service of process on the officers and directors managing the foreign subsidiaries. These companies’ operations must comply with the laws of the countries under which they are incorporated and are likely to be different from the equivalent laws of the United States.

Marine Technology Business (“Products Segment”)

Our Marine Technology Business develops proprietary solutions for both the commercial and defense subsea market. The range of our solutions are complementary and include:

| <u>Type of Systems</u> | <u>Description</u> |
|--|-----------------------------------|
| Geophysical Systems | Comprising Hardware and Software; |
| GNSS-Aided Navigation Systems (Attitude and Positioning Systems) | Comprising Hardware and Software |
| Real Time Volumetric Imaging Sonar | Comprising Hardware and Software |
| Diver Augmented Vision Display System | Comprising Hardware and Software |

These products are sold, leased or rented into various marine sectors and include:

- Marine geophysical survey
- Offshore Renewables (“Wind Energy”)
- Underwater construction, inspection and monitoring
- Diving Companies
- Commercial and Defense Diving
- Salvage and decommissioning
- Oil and Gas (“O&G”)
- Commercial fisheries
- Environmental, mammal and habitat monitoring
- Underwater Defense Applications
- Marine vehicles and robotics
- Port and Harbor Security, law enforcement and first responders

- Research and education

1. Geophysical Range of Products

Our geophysical systems (“GEO”) range of products include geophysical data acquisition systems, processing and analysis software that are used primarily by survey companies, offshore renewable companies, research institutions, salvage companies. The Company’s GEO range of products are used in conjunction with sidescan sonars to survey large areas and create images of the seabed, identify seabed boulders and objects, mark seabed type boundaries and identify existing subsurface structural features, geological layers, and/or buried debris. The Company started its first innovation with this range of products and in fact was the first company to digitalize sidescan sonar data. The Company’s GEO range is a strong brand in the geophysical market space.

2. GPS aided Inertial Positioning Systems

These are referred to as our MOTION range of products and offer high accuracy GPS aided inertial positioning and attitude data, essential for all marine survey applications. The products are commonly bundled with our GEO and real time sonar solutions offering our customers a seamless integration and support experience.

3. Real Time Volumetric Imaging Sonars (ranging from 3D/4D, 5D and 6D)

We design, develop and supply what we believe is the world's most advanced series of real time volumetric imaging sonar. This is the culmination of over 25 years of research and development. This technology is protected by multiple patents. Furthermore, we continue to file patents relating to our new and revolutionary sonars, our 5-Dimensional (5D) and 6-Dimensional (6D) real time volumetric imaging sonars (marketed under the name Echoscope PIPE[®] (Parallel Intelligent Processing Engine)). Our sonar innovations are multi-tiered and extend to hardware, firmware and software, all of which co-exist and are co-dependent on each other. In other words, hardware, firmware and software operate as sub-systems to each other. We believe that the highly complex nature of this new technology will make it extremely difficult to reverse engineer our products. Pioneering this unique technology gives us a significant advantage over our competitors in the subsea real time 3D imaging sonar market sectors. We also believe that our three-tier product development capability of hardware, software and solution delivery adds to our competitive lead.

We believe that this technology is superior to the other imaging sonars in the market as it generates real time 3D, 4D, 5D and 6D images of the underwater environment irrespective of low or zero visibility conditions and, unlike conventional sonars, can image a volume (as opposed to a slice of data) and provide real time 3D inspection and monitoring capability underwater. The capability of our volumetric imaging sonars covers a broad breadth of activities underwater particularly for any form of underwater construction, salvaging, placements, decommissioning, obstacle avoidance and complex underwater mapping and real time 3D navigation in zero visibility conditions.

About the Company's 5D and 6D Sonars Innovations

5D and 6D sonars are new to the subsea market and constitute an innovation by the Company. We have several patent applications pending for these innovations.

5D Sonars (Echoscope PIPE[®])

The advancement that the Company has made with its 5D Sonars is the ability to process and utilize much more of the data that is acquired by our volumetric imaging sonars. In the previous generation of our sonars, due to the state of the art of processing generally, there was an upper limit to the quantity of the acquired data that could be processed and displayed by the sonar system. This meant that in the previous generation of sonars when a signal was emitted, it returned a single range and intensity value per beam. In the 5D Sonars we return multiple range and intensity values (Full Time Series ("FTS")) per beam. This new capability provides more information about the underwater environment. For example, it will give the user the ability to see multiple layers of soft target areas underwater such as gas leaks and suspended sediment above the seabed all concurrently (not one or the other) or concurrent imagery of marine life, sea growth on installations and the installations themselves. FTS will deliver all range values per beam as opposed to either the First (First Above Threshold ("FAT")) or the strongest return (MAX) provided by the previous generation of Echoscope technology. Our 5D capability is protected by a recently granted patent (US 10,718,865 – which concerns a method of compressing beamforming sonar data and US 10,816,652 which concerns a method of compressing sonar data) and 10,718,865 which concerns a method of compressing beamformed sonar data.

6D Sonars (Echoscope PIPE[®])

The Company's 6D Sonars process and utilize much more of the data acquired by the sonar. 6D Sonars generate multiple real time 3D Full Time Series Images. In the previous generation of sonars, we could image and display one 3D Image in real time. Our PIPE technology generates multiple 3D Images simultaneously in real time using different sonar/acoustic parameters (such as frequency, range, field of view, pulse length and other acoustic filters or shading). Our new technology enables one sensor to provide different 3D/4D/5D/6D data sets (through multiple parallel processing capability) to different parts of the survey team operations in real time per their different operational requirements (thus consolidating the sensors and the associated costs and effectiveness of the solution). 6D Sonars can also record raw data that can be subject to PIPE Offline processing to generate unlimited data outputs. We are not aware of any sonars that can offer either 5D or 6D Capability.

In summary, our previous generation of real time 3D sonar was capable of providing only single acoustic images of underwater objects in real time 3D whereas the PIPE family of sonars is capable of providing multiple acoustic images of underwater objects in real time 3D/4D.

Sonar Hardware

During fiscal 2019, we completed critical innovation and advancement milestones around our core volumetric real time sonar technology. We have now introduced the world's first 5D and 6D series of volumetric imaging sonar technology. This new series of sonars are marketed under the brand name Echoscope PIPE[®] (an acronym for Parallel Intelligent Processing Engine). We believe our 5D and 6D series of sonars herald a significant leap forward in real time subsea imaging as this inventive capability allows a single sonar to provide different parts of the survey operations with multiple real time data sets (as opposed to one 3D dataset) for each part of the survey teams' requirements.

A summary of some of the differences between our standard Echoscope[®] sonar series and our newly launched Echoscope PIPE[®] series of sonars are set out below:

| Description | Current Echoscope [®] | PIPE [®] Sonars |
|--|--------------------------------|--|
| Real Time Capability | Yes, 4D Images | Yes, 4D, 5D and 6D |
| Angular Cover Dual Frequency | 50°x50° and 24°x24° | 54°x54° - 47°x47° and 32°x32° - 28°x28° |
| Adaptive Frequency Capability | No | Yes |
| Ping Rate | Up to 20Hz | Up to 40Hz |
| Multiple Real Time 4D Images | No, one single Real Time Image | Capable of Multiple Real Time Images |
| Number of Data Points per Single Ping | Up to 16,386 | Up to 40 million |
| Number of Beams and Values per Beam | 128x128x1 Value | Up to 180 x 180 with up to 2,500 values (depending on viewing range) |
| Multiple Sequential Configuration Files to capture data using different parameters | No Capability | Up to 10 Configuration sets for real time capture and display |
| Full Time Series Raw Data Capture | No Capability | Capture of Raw Data |
| Full Time Series Raw Data Offline Processing | No Capability | Capable of Raw Data Offline Processing |
| Multiple Parallel Beamformed Data Output | No Capability | Capable of Multiple Parallel Beamformed Data Outputs |
| Smart Ping Manager using Frequency, Field of View, Filtering in Real-Time | No Capability | Capable |
| Adaptive Real Time Beamforming | No Capability | Offers various methods of Beamforming the sonar data |

We believe that our Echoscope[®] technology will shepherd in the new generation of underwater real time 3D imaging sonar which will evolve into a real time information platform and gain market share through the increased adoption of real time 3D volumetric imaging sonar technology. Current competing imaging technologies such as the single beam, multibeam and scanning sonars are either 2D real time imaging sonars or 3D imaging sonars which are not capable of real time 3D imaging, that is to generate a 3D image underwater of moving objects. The competing 3D technology, the multibeam, which is the current standard bearer in the market is a sonar for mapping of the seabed. The Echoscope[®] technology can not only map the seabed (and is superior to the multibeam for complex mapping and inspection of complex underwater structures) but can image in real time 3D moving objects underwater and therefore is the primary tool of choice for inspecting and monitoring in real time 3D all types of underwater operations and is the only choice in poor visibility conditions. In addition, the Echoscope[®] can also in many instances enable the user to monitor underwater operations from a surface

vessel and in this way replace Remotely Operated Vehicles (ROVs) thus bringing considerable cost savings to our customers.

Prior to January 2018, we were selling our third generation (3G) sonar series. In January 2018 we launched the first product within our fourth generation series of sonars (“4G sonar series”). The 4G sonar series was an important development milestone for the Company since it removed a number of barriers to market adoption. Since its introduction we have seen increased number of units being sold or rented. Due to the form factor of our previous generation of 3G sonar series this limited the types of underwater vehicles this generation of sonar could be integrated on (and therefore be used for) due to (i) size; (ii) weight and (iii) power requirements (“form factor barriers”). With the launch of the 4G sonar series we have removed these form factor barriers and can now integrate on the majority of underwater vehicles in the market including the new and fast emerging smaller underwater vehicles such as autonomous surface vehicles (ASVs) and unmanned underwater vehicles (UUVs) which are propelling growth in the underwater market, thus opening potentially new market opportunities for the Company’s technology.

The 4G sonar series developments were largely form factor driven as opposed to being based on performance and capability advancements. In fiscal years 2019 and 2020 we continued to build on our 4G innovations with a focus on performance and capability advancements, particularly on the beamforming and the data processing capability of our sonar series. In the previous generation of our sonars, due to limitations in processing technology there were restrictions on how much of the captured Echoscope® sonar data could be processed by us. Our previous generations of sonars processed 16,384 pieces of data per sonar ping (compared to around 256 pieces of data per sonar ping for competing technology such as the multibeam). Under our new Echoscope PIPE® sonar series for each signal that is generated by the sonar we receive back up to 40 million pieces of information which we can now process. In this context, we have two recent patents concerning a method of compressing beamforming sonar data and a method of compressing sonar data. We believe that this allows us to deliver to the market the first 5-Dimensional (5D) sonar and 6-Dimensional (6D) sonar capabilities and significantly builds on our 4G sonar series which radically changed the form factor and power requirements which were previously barriers to increased adoption. The advantages offered by our 5D and 6D Sonar Series have been discussed above under the heading (About the Company’s 5D and 6D Sonars Innovations). We started selling Echoscope PIPE® in the market in March 2020. We are also seeing increased interest in Echoscope PIPE® technology in the market especially with OEM underwater vehicle manufacturers from the defense space.

The release of the Echoscope PIPE® hardware, is a significant milestone. We are now focused on the value add to the technology via firmware and software capability. The finalization of this development now gives the Company a real opportunity to pursue its strategy to standardize this technology in the underwater imaging sonar market. We believe that in order to make the subsea and underwater market more efficient, it is mandatory that the standard moves to a real time 3D information platform. Many underwater operations are stalled due to poor visibility water conditions, preventing the remotely operated vehicles (ROVs) from flying and also the lack of ability to utilize the sonar data immediately because it requires post processing, which represents a significant challenge and costs. The subsea market is experiencing high structural and technology transitional changes including the introduction of the new generation of smaller and lighter vessels (both surface and underwater). This creates a demand for new sensors and solutions for real time 3D imaging. We believe that our lead in this area gives us a real opportunity to increase our market share.

Diver Augmented Vision Display (DAVD) System

Funded by the Office of Naval Research (“ONR”) through its Future Naval Capabilities (FNC) program, and in close collaboration with NAVSEA 00C3 and Naval Surface Warfare Center, Panama City Division (“NSWC PCD”) we have developed a diver see-through integrated information display system (DAVD).

DAVD is a complete end-to-end diver management solution incorporating as a key element a high-resolution, fully transparent glass head-up display (HUD) integrated directly inside the diving helmet (for hard hat surface air supply diving) or full-facemask (for tethered and untethered defense, commercial and recreational diving applications). The DAVD HUD is currently deployed in the world leading and most widely used Kirby Morgan® range of dive helmets and is currently being released in the industry standard Interspiro “AGA”, OTS Guardian and the Divator and Dräger Panorama Nova Dive full-face masks. The DAVD HUD and system technology is not however limited to these products and applications.

Problem In Context

Navy and Commercial diving share common issues and challenges with location, visibility, communication, safety, accessing data and information sharing. Divers work mainly in murky or disorientating water conditions and rely heavily on their sense of touch to navigate and function. They work in the water column, around complex structure and on the cluttered sea bottoms which is neither safe nor efficient. They, and the diver support team, require dark spatial awareness memory as they work, arms outstretched in deep, dark, frigid waters to remember hazardous underwater debris, targets and terrain. Complexity of the task and this challenging environment directly increases risk, stress, and inefficiency for the entire team.

How does DAVD Change this?

The DAVD system addresses all the challenges described above. The DAVD technology benefits not only the diver and direct supervisor on the surface, but also engineers, end-clients, rescue workers and support personnel whom all have vested interest in a successful and safe mission. DAVD provides the location of the diver, the dive support vessel, work site assets and any hazards that are known or discovered in real-time. Real-time compass and depth are also displayed to the diver to reduce disorientation. Visibility for diver and team is dramatically enhanced with both real-time camera and 3D sonar data (providing underwater night-vision) and also high-resolution maps and models of the entire work site and surroundings. Communication is transformed from low quality audio speech to high quality digital audio and video, text messaging, visual alerts and automated navigation guidance. The safety of the diver and team is paramount. DAVD ensures the Diver and Supervisor are visually synchronized and can safely coordinate movement, tasks and instructions with full health monitoring and logging of the entire mission. Data and information sharing traditionally ends when the diver leaves the surface. DAVD provides a seamless and effective way to share any type of data, image, video, process or procedure instantly in real-time through the DAVD fully transparent HUD display (equivalent of >100” HD TV in-front of the diver). Data and information also flow up from the diver to the dive supervisor where the diver can look at an asset, make measurements or recordings and the entire task is captured and documented on the DAVD system.

The concept of using a pair of transparent glasses in the HUD to render real time information for underwater applications is protected by patent and Coda Octopus has an exclusive license from United States Department of the Navy at NSWC PCD to exploit this patent for all underwater diving activities. The DAVD is a significant technology for both defense and commercial underwater diving applications, and we believe that Coda Octopus has the opportunity to standardize this technology globally. The DAVD comprises both hardware comprising the HUD, Diver Processing Pack (DPP) (which is a Thermanite® variant), Cables and Topside Control Unit along with 4G USE® DAVD Edition real time visualization software. All these development and products have been designed and developed by the Company.

The DAVD is currently in early-stage adoption with the US Navy and enjoys the benefit of an Approved Navy Use (ANU) product. We have also started marketing (through live demonstrations) this technology to friendly Navies globally and also to the commercial diving market. We have significant interest from a number of reputable global commercial offshore service providers and are working with them for early adoption of the technology and also a number of European friendly Navies including the UK Ministry of Defense (MOD).

GEN 3 of the DAVD which opens the market further by extending support to Full Face Masks (FFM), has now been finalized. The DAVD solution is now compatible with most helmets and face masks in the market.

Sonar Software

Our software development capability is an important part of our strategy to maintain our lead in designing, manufacturing, and selling state-of-the-art real time volumetric imaging sonars and our DAVD System.

Our existing third generation (3G) Underwater Survey Explorer software used in conjunction with our real time volumetric sonars, is a product which we have been developing for over 15 years. Because of technological advancements, including access to off the shelf components for more advanced processing of data (speed and size being factors), in 2016, the Company started the process of re-conceiving and developing its new generation of top-end software for our now much more advanced sonars. We have now launched our fourth-generation multi-sensor software platform which is marketed under the name “4G USE[®]”. We have also filed several provisional patents around our 4G USE[®] which is a multi-sensor platform allowing users to bring in and utilize a variety of sensor data including sonar, positioning, camera, lidar, video processing and other sources of point cloud data and seamlessly merging above and below the water data captured from the sonar and camera. It is also the platform for our DAVD software, and this is marketed under the brand 4G USE[®] DAVD Edition.

Geophysical Products and Solutions

The Geophysical range of products are important for both Offshore Renewables and O&G. We therefore believe that with the expansion of the markets into Offshore Renewables, we will see an increase in the take up of this product suite, particularly in the global rental market. Our GeoSurvey[®] and DA4G ranges are strong brands in these markets.

We started our business in 1994 designing and developing the GeoSurvey[®] software and hardware package for acquisition and processing of sidescan sonar and sub-bottom profiler data. For over two decades, our GeoSurvey has been an industry leading software package in the market for data acquisition and interpretation and provides feature rich solutions and productivity enhancing tools for the most exacting survey requirements. Designed specifically for sidescan and sub-bottom data acquisition, GeoSurvey has been purchased by numerous leading survey companies throughout the world.

The Products Business generates around 2% of its revenues from this range of products. With the launch of the new products based on Artificial Intelligence technology for which we believe there is increased demand we would anticipate our revenues from this product line to increase over time.

Geophysical Hardware

These consist of a range of hardware solutions for field acquisition of sidescan sonar and sub-bottom profiler, which includes analog and digital interfaces compatible with all geophysical survey systems.

In 2018, we introduced our DA4G-USB product. This allows customers to integrate the DA4G hardware into their own PC configuration. Based on the CodaOctopus[®] DA4G system, it offers the same functionality, robustness and ease of use. CodaOctopus[®] DA4G is the fourth generation of our successful DA series and is built on twenty years of knowledge, experience and innovation in supplying unparalleled products and service to the worldwide geophysical survey sector. These purpose-built, turn-key, systems incorporate the very latest hardware specifications and are designed and delivered to meet the demanding nature of offshore survey work.

The CodaOctopus[®] DA4G range consists of a number of options and is backed (like all our products) with global service and support.

This consists of an integrated suite of software that automates the tasks of analyzing, annotating and mosaicking complex data sets, thus ensuring faster and more precise results.

Geophysical Software

Our GeoSurvey[®] software is supplied to complement our DA4G hardware, offering field acquisition of sidescan sonar and sub-bottom profiler data.

Our Survey Engine[®] software product offers a more advanced post-processing solution for sidescan sonar and sub-bottom profiler data. Designed to streamline processing of very large data sets – many 100GBs – it offers comprehensive processing, interpretation, visualization, reporting and exporting functionality.

We continue to advance this range of products and in 2018 we launched our first product based on Artificial Intelligence techniques which allows us to automatically identify boulders on the seabed – SEADP – “Survey Engine Automatic Object Detection”. This new product presents a real opportunity to radically change workflow process for post-processing and analyzing side scan sonar data to assess, among other things, the suitability of an area for exploration and construction activities (O&G installations, pipeline and cable laying activities). This is in its early stage of roll out and has sparked significant interest. This is an area where we are investing our research and development efforts. We are also seeing good results from SEADP and some good quality early adopters of this new technology in the market.

Inertial Positioning and Attitude Measurement Systems (“Motion Products”)

Our Motion Products are Global Navigational Satellite System (referred to in the industry as “GNSS” Aided Inertial Measurement Units) provide measurement data on the position and attitude of a vessel. This device provides real-time data on these measurements which are applied to compensate for vessel movement in order to align sonar data and remove motion blur.

We have had our F180[®] series in the market for over 15 years and due to advancement of technology and the increasing demand for more precise GNSS Aided instruments, we have now developed our new generation of Motion Products, our F280 Series[®].

New Generation of Motion Products

We have now completed the ground up development of our new generation of Motion Products F280 Series[®] for accurate position, heading, pitch, roll and yaw at sea. The new F280 Series[®] is based on more advanced technology and is more accurate than our F180[®] series. The new technology is much more scalable towards future development of new product variants. The F280 Series[®] is highly complementary to our real time volumetric sonar series and they are packaged together to provide a more comprehensive solution to our customers. The F280[®] is sold with and without our sonar series.

Sales and Marketing

We market our products primarily through our internal sales team, website, industry events such as trade shows, webinars, industry relationships and agents in foreign countries such as Japan, China and Korea. In addition, we have a network of non-exclusive independent global sales agents. In 2023, a significant part of our business plan budget is allocated to business development, sales and marketing which will include recruiting new staff for more direct sales and business development.

Coda Octopus Products Limited has the requisite accreditations for its business including being Lloyds Register accredited to ISO 9001:2015 and Cyber Essentials certification.

Marine Engineering Businesses (“Services Segment”)

Our Marine Engineering Businesses comprise Coda Octopus Colmek, Inc. based in Salt Lake City and Coda Octopus Martech Limited based in the United Kingdom.

These two operating entities supply engineered sub-assembly solutions which form part of mission critical integrated defense systems, test equipment, instrumentation, and the like. They operate as sub-contractors to prime defense contractors, and their engineering solutions are typically designed for integration into broader defense programs where high levels of reliability and quality are essential pre-requisites for securing and maintaining these agreements with their customers. Typically, we prototype subassemblies for these customers and after going through various acceptance tests, including first article inspection approvals, we are given the manufacturing contracts. Many of these manufacturing contracts have a repeat orders profile which typically follows the life cycle of the defense program that is using the production part.

These arrangements often give us long term preferred/sole supplier status for the parts we supply, technology refresh and obsolescence management business opportunities with these customers and we generally use these long-standing relationships to win more contracts with these customers.

In order to grow, the Marine Engineering Business relies on increasing the number of new programs it attracts annually.

In addition, we are increasingly combining our engineering capabilities with our product offerings. This enables us to offer systems which are complete with installation and support to maximize the utilization of our collective expertise to advance our real time volumetric sonar technology.

Coda Octopus Martech Limited (“Martech”)

Martech, which is UK-based, operates in the specialized niche of bespoke design and manufacturing services mainly to the United Kingdom defense and subsea industries. Its services are provided on a custom sub-contract basis where high quality and high integrity devices are required in small quantities.

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

Coda Octopus Colmek, Inc. (“Colmek”)

Colmek, which is USA-based, are suppliers of embedded solutions and sub-assemblies which they design and manufacture and sell into mission critical integrated defense systems such as the Close-In-Weapons System (CIWS). This business was established 1977 and has been supporting several significant US defense programs for over 40 years, including Raytheon’s CIWS and Northrop Grumman’s Mine Hunting Systems Program (AQS-24). Colmek’s business model entails designing sub-assembly prototypes for defense programs which typically lead to contracts for the manufacture, repair and upgrade of these sub-assemblies. We are the sole source for the parts that we supply into these programs. This business model ensures recurring and long tail revenues since we continue to supply parts, typically for the life of the program, which can span decades.

Competition

In our Marine Technology Business (Products Business), we are exposed to the following competitive challenges:

Data Acquisition Products (GEO Products)

The industry for data acquisition and processing systems for sidescan and sub-bottom profiler data is fragmented with several companies occupying niche areas, and we face competition from different companies with respect to our different products.

In the field of geophysical products, Triton Imaging Inc., a US-based company, now part of the ECA Group (Toulon, France), Chesapeake, a US-based company, and Oceanic Imaging Consultants, Hawaii, USA, dominate the market with an estimated 25% each of world sales, while we believe that we control approximately 5% of world-wide sales.

GNSS Aided Inertial Positioning and Attitude Measurement Systems (“Motion Products”)

In the field of GNSS-aided inertial positioning and attitude sensing equipment, where our product addresses a small segment of the overall market, we believe that we have four principal competitors: Teledyne Marine (part of US based Teledyne Technologies Inc.) which is focused on the mid-performance segments with an estimated 25% of the market; iXblue, a French company which covers all segments, with an estimated 20% of the market; Kongsberg Seatex AS, a Norwegian company (part of Kongsberg Gruppen) which has products across all segments, with an estimated 15% of the market; and Applanix, a Canadian company (part of Trimble) which has one major product focused on the high end of the market, with an estimated 20% of the market. We believe that our market share in this market segment of motion sensing equipment is about 5%. This market is fiercely competitive and with the advancement of technology coupled with the development of autonomous land and marine platforms there are additional vendors in the market such as SBG Systems S.A.S (a French based manufacturer of motion sensors). We sell our MOTION range as part of our equipment suite to complement our 3D sonar range as well as supplying it individually. The development and introduction of our F280 Series[®] of GNSS Aided Inertial Positioning and Attitude Measurement System[®] constitutes our new generation of Motion Products and gives us the opportunity to increase our market share.

Real Time 3D/4D/5D and 6D Volumetric Sonar

In the field of Real Time 3D/4D/5D imaging, we are unaware of other companies offering a similar product. In this context it is important to understand some of the capabilities we bring to this field include:

- Acoustic Projector/Transmitter design, manufacturing, and testing
- Acoustic Receiver Array design, manufacturing, and testing
- Acoustic encapsulation and sensitivity measurement
- Acoustic Projector/Transmitter beam pattern and sensitivity measurement
- Pressure housing Design and Manufacture (sonar systems)
- 3D/5D/6D Real-Time digital beamforming (on-device)
- 1D and 2D Digital Beamforming
- Broadband Beamforming
- Signal Processing
- Active High Frequency Sonar Systems

- Passive Mid Frequency Sonar Systems
- Data acquisition and recording hardware and software
- Real-time 2D and 3D sonar visualization rendering and processing software

The entry into this market is dependent upon specialized marine electronics, acoustic and software development skills. The learning curve, which has resulted in the advancement of our real time 3D sonar device, is the culmination of two decades of research and development into this field. Companies such as Kongsberg Gruppen, R2Sonic, LLC, Tritech International Ltd., United Kingdom, BlueView Technologies Inc., USA (now a part of Teledyne Technologies Incorporated), and Norbit Group AS Norway are examples, but none of these sonar offerings are directly comparable or competitors to our real time volumetric 3D/4D/5D and 6D sonar solutions as their scanning sonar, single beam or multibeam sonars are not real time 3D imaging sonars and therefore cannot image moving targets underwater. Specifically, we believe that they do not have the same capabilities as our Echoscope® technology in terms of real time inspection and monitoring by generating 3D, 4D, 5D and 6D images of moving objects underwater including in environments in low or zero visibility conditions. Nor do they have the ability to use a single sonar for multiple real time 3D/4D images simultaneously. Notwithstanding it should be noted that Teledyne has acquired a significant number of substantial subsea companies (examples are Reson and BlueView). Teledyne has much greater resources, liquidity and market reach than our Company and has many operating verticals. We therefore can give no assurance that companies such as these will not enter this market. Furthermore, companies such as Kongsberg Gruppen and Teledyne can expend significantly more in any one fiscal year on R&D and Business Development, key pillars for increasing market share of underwater imaging sonars, than Coda Octopus. Notwithstanding, we believe that our recent development and introduction of 5D/6D - Echoscope PIPE® sonar capability in conjunction with our software (4G USE® a multi-sensor platform) further distinguishes our volumetric sonars and significantly extends our lead over competitors in the subsea imaging market. We are not aware of any other imaging sonars in the market capable of generating real time 5D and 6D imagery underwater, which are Coda Octopus inventions. The innovations around Echoscope PIPE® are the subject of numerous patent applications.

We seek to compete on the basis of producing high quality products employing cutting edge technology that is easy to use by operators without specialized skills in sonar technology. We intend to continue our research and development activities to continually improve our products, seek new applications for our existing products, develop new innovative products and grow the market for our products and expertise.

In our Services Segment, we are exposed to the following competitive challenges:

Marine Engineering Businesses

Through our marine engineering operations, Coda Octopus Colmek, Inc. and Coda Octopus Martech Limited, we are involved in custom engineering for the defense industry in the United States and in the United Kingdom. Martech and Colmek compete with larger contractors in the defense industry. Typical among these are Ultra Electronics, BAE Systems, and Thales, all of whom are also partners on various projects. In addition, the strongest competitors are often the clients themselves. Because of their size, they often have the option to proceed with a project under their Prime Defense Contract in-house instead of outsourcing to a sub-contractor like Martech or Colmek.

Intellectual Property

Our product portfolio and technologies are protected by intellectual property rights including trademarks, copyrights and patents. In the last 3 years we have advanced our existing sonar technology and have filed a number of significant patents applications pertaining to these inventions including covering our newly innovated 5D and 6D sonars. Furthermore, we have recently been awarded a patent which concerns a method of predicting and adjusting the laying of cable using sonar imaging. This is a significant patent for Offshore Renewables Market (Wind Energy), which is a rapidly increasing market sector and an important one for our growth. Our Echoscope® and Echoscope PIPE® technology is used for real time monitoring of cable installations for offshore wind projects. This Method which we have patented is used in conjunction with our Echoscope and automates the tracking of the cable (thus removing the need for an Echoscope® operator who previously would be manually clicking on the cable touchdown point). This method covered by our recently awarded patent also projects the cable touchdown point.

Patents

Our patented inventions along with our strategy to enhance these inventions are at the heart of the Company's strategy for growth and development. We expend a material part of our cash resources in building our Patent Portfolio. In the 2022 Financial Year we added two new patents to our portfolio. We also incentivize our staff by having in place a Patent Reward Scheme.

Our patent portfolio consists of the following:

| <u>Patent No.</u> | <u>Description</u> | <u>Expiration Date</u> |
|-------------------|---|------------------------------------|
| US 7,466,628 | Concerns a method of constructing mathematical representations of objects from reflected sonar signals | January 1, 2027 |
| US 7,489,592 | Concerns a method of automatically performing a patch test for a sonar system, where data from a plurality of overlapping three-dimensional (3D) sonar scans of a surface, as the platform is moved, are used to compensate for biases in mounting the sonar system on the platform | March 5, 2027 |
| US 7,898,902 | Concerns a method of representation of sonar images allowing 3D sonar data to be represented by a two-dimensional image | June 13, 2028 |
| US 8,059,486 | Concerns a method of rendering volume representation of sonar images. | April 16, 2028 |
| Japan 5565964 | Concerns a method for drilling/levelling by an underwater drilling/levelling construction device | January 13, 2031 |
| Japan 5565957 | Concerns a method of construction management for a 3D sonar device | October 13, 2030 |
| US 8,854,920 | Concerns a method of volumetric rendering of 3D sonar data sets | June 22, 2033 |
| US 9,019,795 | Concerns a method of object tracking using sonar imaging through point matching between 3D data sets | November 30, 2033 |
| US 10,088,566 | Concerns a method of object tracking using sonar imaging using a bounding sphere for object tracking | November 25, 2036 |
| *US 10,718,865 | Concerns a method of compressing beamformed sonar data | March 1, 2039 |
| US 10,816,652 | Concerns a method of compressing sonar data | October 28, 2038 |
| US 11,061,136 | Concerns a method of tracking unknown possible objects with sonar | March 28, 2039 |
| **US 11,204,108** | Concerns a method of predicting and adjusting the laying of cable using sonar imaging. | March 22, 2039 |
| *US 11,448,755* | Concerns a method of correcting beamformed data through split aperture beamforming | June 3, 2041 |
| *US15/953423* | Concerns a method of pseudo random frequency sonar ping generation for the purposes of data and hardware cost reduction | *** Provisional Allowance Received |
| *JP2019-34056* | Concerns a method of compressing sonar data | ***Provisional Allowance Received |

* This is a significant patent as it covers our new innovation relating to our 5D Real Time Imaging Sonar (a real time sonar providing full time series 3D data) – See above where we discuss more about 5D Sonars under section “About the Company’s 5D and 6D Sonars Innovations”.

*** This is a significant patent for Offshore Renewables Market. Our Echoscope[®] technology is used for real time monitoring of cable installations for offshore wind projects. This Method, which we have patented, is used in conjunction with our Echoscope[®] technology and automates the tracking of the cable (thus removing the need for an Echoscope[®] operator who previously would be manually clicking on the cable touchdown point). This method also projects the cable touchdown point.*

****These will be granted once we have paid the necessary fees and completed certain applications.*

Trademarks

We own the registered trademarks listed below and they are used in conjunction with the products that we market and sell:

Coda[®], Octopus[®], CodaOctopus[®], CodaOctopus & Design[®], Octopus & Design[®], F180[®], F280[®], F280 Series[®], Echoscope[®], Echoscope 4G[®], Echoscope 5D[®], 5D Echoscope[®], Echoscope 6D[®], 6D Echoscope[®], Echoscope PIPE[®] Ping-Pong Echoscope Sonar[®], Ping-Pong Echoscope[®], Ping-Pong Sonar[®], 4G Underwater Survey Explorer[®], 4G USE[®], Echoscope Sequencer[®], Survey Engine[®], Dimension[®], DAseries[®], GeoSurvey[®] CodaOctopus[®] Air, CodaOctopus[®] Vantage; CodaOctopus[®] UIS; CodaOctopus[®] USE, Sentiris[®] and Thermite[®].

In addition, we have registered several internet domain names including www.codaoctopus.com; www.codaoctopusgroup.com; www.colmek.com and www.martechsystems.co.uk.

Research and Development (“R&D”)

Research and Development is foundational to our business strategy to ensure our growth strategy and maintain our competitiveness. During the fiscal years ended 2022 and 2021, we spent \$2,237,920 and \$2,982,676, respectively, on R&D, representing a 25.0% reduction. With the crystallization of several significant hardware development projects by the Company, research and development has fallen.

Our products are complex and therefore we can give no assurance that even with spending a significant part of our resources on R&D, we will be successful in our development goals or realized significant monetization of these developments. Furthermore, even following launch of any product we may not succeed. Moreover, we may incur significant research and development expenditures without realizing viable products.

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Government Regulation

Because of the nature of some of our products, they may be subject to export control regimes including in the United States, United Kingdom, Denmark and Australia where we conduct business operations. Where our products are subject to such export control requirements, they may only be exported to our customers if there is a valid export license granted by the relevant government body. Moreover, these regulations may change from time to time in these jurisdictions, including the United States, depending on the existing relationship with the country to which the goods are exported. See Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operation) for further discussion on this topic.

We are also required to maintain certain accreditations such as ISO 900 accreditation, cyber security certifications including Cyber Essentials and NIST, approvals to hold government items or materials and/or certain personnel or facility clearances.

In addition, as a provider for the US Government, we may be subject to numerous laws and regulations relating to the award, administration, Defense Federal Acquisition Regulations (“DFARs”) and performance of US Government contracts, including the False Claims Act. Non-compliance found by any one agency could result in fines, penalties, debarment, or suspension from receiving additional contracts with all US Government agencies. Given our dependence on US Government business, suspension or debarment could have a material adverse effect on our business and results of operations. In addition, the costs of complying with some of the regulations including DFARS may be prohibitive.

Employees

As of the date hereof, we employ approximately 83 employees worldwide, of which 12 hold management positions. A large majority of our employees have a background in science, technology and engineering, with a substantial part being educated to degree and PhD level. None of our employees are employed under a collective agreement and we have not experienced any organized labor difficulties in the past.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES

Orlando, Florida

Our corporate offices are co-located with our subsidiary Coda Octopus Products, Inc. in Orlando. We own these business premises comprising 3,000 square feet that includes office space and R&D facilities.

Salt Lake City, Utah, USA

Coda Octopus Colmek operates from its premises which comprises 16,000 square feet and includes manufacturing, R&D Facilities and office space. These premises are owned by Coda Octopus Colmek.

Edinburgh, Scotland, UK

Coda Octopus Products Limited (Edinburgh based) operates from its premises comprising 12,070 square feet of internal space and includes manufacturing, R&D Facilities and office space. These premises are owned by Coda Octopus Products Limited.

Copenhagen, Denmark

As a mitigation strategy in relation to the UK leaving the European Union membership, thus limiting trade relations with EU member states, we have established a Danish subsidiary, Coda Octopus Products A/S and leased business premises in Copenhagen, Denmark. The lease is a fixed term lease for the period September 1, 2019 to September 1, 2023 and continues unless 6 months' notice is given in advance.

Annual rent is DKK 142,893 plus Value Added Tax (being an equivalent of \$20,472) per annum) with an annual increase of 3%.

Portland, Dorset, UK

Martech uses premises owned by Coda Octopus Products Limited. These premises are located in the Marine Center in Portland, Dorset, United Kingdom, and comprise 9,890 square feet. The building comprises both office space and manufacturing and testing facilities. Martech is paying Coda Octopus Products Limited rent amounting to the equivalent of \$53,803 per annum.

All non-US Dollar denominated rents are stated according to prevailing exchange rates as of the date of each respective lease agreement.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES.

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the Nasdaq Capital Market under the symbol "CODA" since July 19, 2017. Prior thereto, it had been quoted on the OTCQX since February 8, 2017, under the symbol COGI, and prior thereto, on the OTC Pink Sheets under the symbol CDOC. The following table sets forth the range of high and low bid prices of our common stock as reported and summarized on the Nasdaq, for the periods indicated. These prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

| Year Ended October 31, 2022 | HIGH | LOW |
|------------------------------------|-------------|------------|
| First Quarter | \$ 8.95 | \$ 6.49 |
| Second Quarter | \$ 7.37 | \$ 5.60 |
| Third Quarter | \$ 5.75 | \$ 4.77 |
| Fourth Quarter | \$ 6.44 | \$ 4.85 |
| Year Ended October 31, 2021 | HIGH | LOW |
| First Quarter | \$ 6.67 | \$ 5.21 |
| Second Quarter | \$ 9.50 | \$ 6.95 |
| Third Quarter | \$ 9.90 | \$ 7.70 |
| Fourth Quarter | \$ 9.50 | \$ 8.31 |

We have not declared or paid any cash dividends on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, operating results, capital requirements and other factors that the board of directors considers significant.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

General Overview

We operate two distinct business operations. These are:

- the Marine Technology Business (also referred to in this Form 10-K as "Products Business", "Products Operations" or "Products Segment"); and

- the Marine Engineering Business (also referred to in this Form 10-K as “Engineering Business”, “Engineering Operations”, or “Services Segment”).

Our Marine Technology Business is a technology solution provider to the subsea and underwater market. It has a long-established pedigree in this market, and it innovates, designs, develops and manufactures proprietary solutions for this market (both for commercial and defense applications) including our range of flagship volumetric real time sonar solutions and our diving technology.

These solutions and products are used primarily in the underwater construction market, offshore oil and gas, offshore wind energy industry, and in the complex dredging, port security, mining and marine sciences sectors. Our customers include service providers to major offshore renewable companies, oil and gas (“O&G”) companies, law enforcement agencies, ports, mining companies, underwater vehicle manufacturers, Prime Defense Contractors as OEM integrators, defense bodies, fisheries and research institutes.

Our Marine Engineering Business is a supplier of engineering services and embedded solutions (such as mission computers) to prime defense contractors such as Raytheon, Northrop Grumman, Thales Underwater, Atlas Elektronik UK and Babcock International Group. Generally, the items supplied into the defense market are sub-systems in broader mission critical integrated systems and thus requires a high level of reliability, consistency in standards and robustness.

We have long-standing relationships with prime defense contractors, and we use these credentials to secure more business. We support some significant defense programs by supplying and maintaining proprietary parts (or parts for which we are preferred suppliers) through obsolescence management programs. These services provide recurring stream of revenues for our Services segment.

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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.

Factors Affecting our Business

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

A. United Kingdom’s withdrawal from the European Union (“Brexit”)

The UK was a member of the European Union member states for close to 50 years. This membership enabled the freedom of movement of goods, persons, capital and services between member states. Following a referendum in 2016 the country voted to leave the EU. The UK withdrew from its membership of the EU on December 31, 2020. This withdrawal removed all rights which the UK previously enjoyed as a member.

As part of the withdrawal, the UK Government and EU reached an agreement on December 30, 2020, on trade in certain areas.

The change in the UK EU membership status adversely impacts our business in several important areas:

- Our shipments into the European Union are subject to customs process. This results in increased costs and time for the processing of shipments. This operates as a deterrent for EU customers to work with us. We endeavor to mitigate this by shipping to our subsidiary in Denmark which ships to our customer. This means increased costs which we are unable to recover and significant delays which may risks the project.
- Our technology requires training to support its effective implementation. Typically for sales and rentals we would mobilize our engineers to train and assist these customers in set up of the equipment. Under the new trade agreement, we will need to obtain the necessary work permits from the EU member state to which we intend to send our engineer. This will be time consuming and costly and the rules for granting such permit will vary from member state to member state. Furthermore, we have no precedent to know if these permits will be granted.
- EU Member State customers are reluctant to engage UK companies, due to the hassle factor associated with importing into the EU. This risks reduction in our opportunities emanating from the EU countries.
- We are not able to recruit from EU Member states without getting work permits. As a result, we are subject to skills shortages and significant increase in the costs of salaries as many technology companies are competing for the same skills. The UK is generally facing a critical skills shortage, resulting in shortage of skills in key areas such as engineering and software development.

The Company established Coda Octopus Products A/S, in Denmark to maintain a presence in the European Union and to address some of the foreseeable issues. This subsidiary is crucial for our continued relationship with EU customers.

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B. Currency Risks:

The Company’s operations are split between the United States, United Kingdom, Denmark, India and Australia. A large proportion of our consolidated revenues (53.9% in the 2022 FY) are generated outside of the United States by our foreign subsidiaries in the United Kingdom (“UK”) and Denmark. In addition, a significant part of our assets and liabilities (both current and fixed) is held in British Pounds and Danish Kroner by these foreign subsidiaries. Foreign Currency Translations as they pertain to our assets and liabilities are translated at the prevailing exchange rate at the balance sheet date and related revenue and expenses are translated at weighted average exchange rates in effect during the period (see paragraph n (Foreign Currency Translation) of Note 2 – Summary of Accounting Policies of our audited Consolidated Financial Statements as of October 31, 2022). Significant currency fluctuations (particularly the British Pound and/or the Danish Kroner, Euros, versus the US Dollar) may affect our financial results and the value of our assets. We are therefore subject to currency fluctuation risks. In the Current 2022 FY, due to the sharp depreciation of the Pound, Danish Kroner and Euros against the USD, our revenues were impacted by \$1,192,833 when applying the same exchange rate in the 2021 FY.

C. Inflation

Inflation measured as the Consumer Price Index is significant in the countries in which we operate. In the twelve months to October 31, 2022, these were:

- Denmark 10.1% - source: Statistics Denmark,
- UK 11.1% - source: Office of National Statistics (ONS); and
- USA 7.7% - source: U.S. Bureau of Labor Statistics.

In the 2022 FY the impact of Inflation has not been material since we were holding significant inventory and also had our salaries and professional fees in place at the beginning of the 2022 FY. However, we believe global inflation will pose a significant risk to our business in the 2023 FY. Inflation affects our business in several areas and therefore our overall financial results. For further discussions on Inflation see the relevant section of Item 7 MD&A which concerns “Inflation and Foreign

Currency”.

D. Political Landscape/Exporting to China

We sell our products globally and increasingly to Asia. The recent change in both the US and UK Governments’ attitude (and to a lesser extent the European Union member states) towards trade with China, directly affects the sale of our products to customers based in China. Our real time 3D sonars which are depth rated above 300 meters along with our inertial navigation and attitude measurement sensors (F280[®] series) are subject to export control for certain countries, including China and therefore requires an export license. We also are not allowed to promote our DAVD technology in China.

On December 22, 2020 the US Government Department of Commerce (Bureau of Industry and Security, Commerce) amended the Export Administration Regulations (EAR) to add seventy-seven (77) Chinese entities “determined ...to be acting contrary to the national security or foreign policy interests of the United States”. The amended EAR in general states that there is a “presumption of denial” of grant of export licenses to these entities and their affiliates. In a new pronouncement dated November 4, 2021, the US Government has expanded the list significantly which is an indication that the US Government policy and disposition towards China is hardening and companies in the technology space will increasingly find it difficult to sell to China due to government restrictions.

The UK Government is generally in lock step with the US Government’s position and has refused to grant export licenses for several of the Company’s applications for end users in China for the first time in 25 years of our dealing with the UK Export Control Organization. The curtailment of access to this market due to refusal to issue export licenses is likely to significantly impact our revenues from Asia.

Furthermore, even though our sonars which are depth rated at 250m or less do not require export licenses for China, and our other products such as our geophysical products and Pan & Tilt devices, the UK Customs are now indiscriminately seizing all our shipments which are consigned for China.

In 2022 FY we realized much less in sales to China, and we believe this is a result of the political environment.

The removal of China as a trading partner is likely to have significant negative impact on our revenues and growth strategy. China has one of the largest planned investment programs for offshore renewables, the market for which most of our technology is used for in China. After significant business development in China, we had started to see persistent and credible growth for our products in this market. Unless there is a change in this policy, we are likely to see a decline in growth and sales into the Chinese Market.

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E. Supply Chain and Supply Chain Disruption

We rely on the availability of raw materials including electronic assemblies and semiconductor to manufacture our products and solutions and offer our engineering services.

Due to the exceptionally high demand in the semi-conductor market with limited supplies available, we are experiencing extreme lead times for components which are necessary for the manufacture and service of our products and providing engineering design services by our Engineering Business. We are also seeing significant price increases for these and other routine components. Both the extended lead time, in some instances 99 weeks lead time is being quoted by suppliers, and the price increase may affect our ability to meet customer requirements and make the prices of our products or engineering service uncompetitive. The Products Business may reasonably endeavor to reduce the impact of the extended lead times we are experiencing by priming well in advance our supply chain as far as possible. However, the impact on the Engineering Business is more severe and could grind their operations to a halt since this part of our business does not know what components are required until their customers place an order for bespoke engineering work packages. We therefore have a high risk that our Engineering Business’ may be severely impacted by the shortages that we are currently experiencing. The increased inventory evidences our mitigation strategy to increase inventory where we can and, in this regard, a significant part of our cash resources in the 2023 FY is geared towards supporting our supply chain requirements.

Our technology is based on electronics that are designed and manufactured to our specification exclusively for us. These electronic components are costly. Advancement in technology may make these specialized components or circuits obsolete. Reengineering these key components could result in significant capital expenditure and also may cripple the production of our products since quick replacements cannot be found and would require new engineering work. Furthermore, there is no broader market for these components.

F. Significant Increase in the Price of Raw Materials

In addition to the disruption in the Supply Chain, we are also experiencing very significant increase in price of raw materials which we are unlikely to be able to pass on to our customers. These increases may make the cost of making our products prohibitive and uncompetitive and could affect our margins and also the viability of our business.

G. Shortage of Key Skills/Resourcing Levels and significant increase in cost of operations due to inflation

We are experiencing extreme shortage of personnel with key skills which are critical to our business, such as electronic engineers, software development skills, technical support engineers, field support engineers and sales and business development skills. This situation is further compounded by significant increases in wages and salaries. In addition, with the UK withdrawing from EU membership, this exacerbates an already critical situation for businesses. In the UK where we have a significant part of our activities including Manufacturing and Research & Development, there is acute shortage of skills and many industries demanding pay increases in excess of current inflation rate of 11.1%. The UK is seeing extensive strike actions across the country, and this will put further pressure on businesses to meet and exceed inflation-proof salary increases. This is likely to increase the cost of operations, in particular, our SG&A expenditures in the 2023 FY.

As a small business, we are hindered in our ability to compete for certain specialized electronic engineering skills as our remuneration package is not as competitive as those offered by bigger companies which are competing for the same skills.

We are looking to address the skills shortage by establishing a subsidiary in India, where software development skills and support engineers’ skills are more readily available (as we do not believe the local situation will improve in the near future- given the different Tech companies that are competing for the same skills). We can, however, give no assurance that this will serve as adequate mitigation for this issue.

H. Government Spending for Defense:

We are dependent on the timely allocation of funds to defense procurement by governments in the United States and the United Kingdom. A large part of our revenues in the Services Segment derives from government funding in the defense sector. In general, where there is a change of government, spending priorities may change from those priorities of the previous Administration. This may adversely impact on our revenues. Furthermore, the US Federal Defense Budget is dependent on the New Administration being able to secure approval in Congress for the defense budget. The slim majority on which the current Administration operates is likely to hinder future spending on new defense projects.

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I. Technological Advancement:

A significant part of our growth strategy is predicated on our flagship real time volumetric imaging sonar technology and our Diver Augmented Vision Display (DAVD) solution. The technology space is inherently uncertain due to the fast pace of innovations and therefore we can give no assurance that we can maintain our leading position in these areas or that innovations in other areas may not surpass our solutions that we currently supply to the subsea market. An example of new technology entering the subsea market is LIDAR technology. However, unlike our sonar technology, LIDAR technology cannot be employed in zero visibility conditions and cannot generate a volume pulse or image moving objects required for real time inspection and monitoring underwater.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

All of our revenues are earned under formal contracts with our customers and are derived from both sales and rental of underwater technologies and equipment for imaging, mapping, defense and survey applications, diving technology 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 paragraph h of Note 2 "Revenue Recognition" in our Consolidated Financial Statements.

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Stock based Compensation

We recognize the expense related to the fair value of stock based compensation awards within the consolidated statements of income and comprehensive income. The fair value of stock based compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered.

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification 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 lives for income tax purposes versus straight line depreciation used for book purposes and from the utilization of net operating loss carry-forwards.

Deferred tax assets and liabilities are the amounts by which the Company's future income taxes are expected to be impacted by these differences as they reverse. Deferred tax assets are based on differences that are expected to decrease future income taxes as they reverse. Correspondingly, deferred tax liabilities are based on differences that are expected to increase future income taxes as they reverse. Note 8 to the Consolidated Financial Statements discusses the amounts of deferred tax assets and liabilities, and also presents the impact of significant differences between financial reporting income and taxable income.

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

Goodwill and Intangible Assets

Goodwill and intangible assets consist principally of the excess of cost over the fair value of net assets acquired (i.e., 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 intangible assets using the straight-line method over their estimated period of benefit. We annually evaluate the recoverability of goodwill and intangible assets and carefully consider events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

Step 1 of the goodwill impairment test used to identify potential impairment compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future discounted cash flows, exceeds the carrying amount, goodwill is not considered impaired. The Company has adopted Accounting Standards Codification 2017 – 04, Simplifying the Test for Goodwill Impairment, which permits the Company to impair the difference between the carrying amount in excess of the fair value of the reporting unit as the reduction in goodwill.

At the end of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the reporting unit compared to the fair value of the reporting unit. To date, the Company has not had any goodwill impairments.

Fiscal Year 2022 Consolidated Results of Operations

In this Form 10-K, the following meanings are ascribed to the terminologies set out immediately below:

| | |
|-------------|--|
| FY | Means Fiscal Year |
| 2022 FY | Means the Fiscal Year ended October 31, 2022 |
| 2021 FY | Means the Fiscal Year ended October 31, 2021 |
| Current FY | Means the Fiscal Year ended October 31, 2022 |
| Previous FY | Means the Fiscal Year ended October 31, 2021 |

In the Current FY revenues increased by 4.2% over the Previous FY, Gross Profit Margins fell by 0.9%, total operating expenses fell by 6.8% and operating income increased by 30.4%. Net income before taxes fell by 2.3% and after taxes by 13.1%. The main factor is that in the Previous FY we recorded in "Other Income" exceptional items totaling \$1,350,440 (comprising Paycheck Protection Program ("PPP") and Employment Retention Credits ("ERC")) contributions whereas in the 2022 FY we recorded \$88,917 comprising ERC. Without these exceptional items in both the Current FY and Previous FY, net income before taxes would have been \$5,043,418 and \$3,902,804, respectively, thus representing a 29.2% increase in net income before taxes in the 2022 FY.

Our revenues in the Current FY have been materially affected by the sharp depreciation of the Pound, Danish Kroner and Euro against the USD our reporting currency. A significant part of our consolidated revenues is translated from Pounds and Danish Kroners to USD. The overall impact of this currency fluctuation is \$1,192,833, when using the exchange rate of the Previous FY.

In the Current FY the Products Business generated revenues of \$14,724,688 compared to \$15,804,222 during the Previous FY. The part of the Products Business revenues generated by the Company's foreign subsidiaries in the UK and Denmark, has been impacted by the significant fall in the Pound and the Danish Kroner against the USD, our reporting currency. This means that when comparing the same exchange rate of the Previous FY, the Products Business revenues in the Current FY after translating from Pound to USD fell by \$913,899. Therefore, without the significant depreciation of the Pound and the Danish Kroner against the USD in the Current FY, the Products Business revenue would have been \$15,638,587 and in line with the Previous FY.

In the Current FY the Engineering Business generated revenues of \$7,501,115 compared to \$5,527,305, an increase of 35.7%. However, the UK part of our Engineering Business was also impacted by the significant depreciation of the Pound against the USD and, as a direct result, revenues were adversely impacted by \$278,934.

We are increasingly reducing the impact of currency fluctuations on our foreign subsidiaries revenues by transacting our sales in USD. In the Current FY, 46.1% of our revenue was transacted in USD compared to 26.4% in the Previous FY.

Comparison of fiscal year ended October 31, 2022, to fiscal year ended October 31, 2021

The information provided below pertains to the Company's consolidated financial results. For information on the performance of each Segment including the disaggregation of revenues and geographical split, see Note 13 ("Segment Analysis") of our audited Consolidated Financial Statements as of October 31, 2022, and 2021.

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Revenue:

| | Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|----|------------------------------------|------------------------------------|--------------------------|
| \$ | 22,225,803 | \$ 21,331,527 | Increase of 4.2% |

We realized an increase in revenues of 4.2% in the 2022 FY compared to the 2021 FY. However, as discussed above, the sharp depreciation of the Pound against the USD in the Current FY has impacted our revenues generated by our foreign subsidiaries by \$1,192,833 and thus our overall consolidated revenue in the 2022 FY.

| | | |
|------------------------------------|----|------------|
| Products Business Revenues 2022 FY | \$ | 14,724,688 |
| Products Business Revenues 2021 FY | \$ | 15,804,222 |
| Services Business Revenues 2022 FY | \$ | 7,501,115 |
| Services Business Revenues 2021 FY | \$ | 5,527,305 |

The Products Business revenues declined by 6.8% in the Current FY. This is largely due to the sharp depreciation of the Pound, Euro and Danish Kroner against the USD. A significant part of our revenues is derived from our foreign subsidiaries in the UK and Denmark and therefore for the purpose of reporting, the functional currencies of these subsidiaries are translated into USD. Applying the same exchange rate as the Previous FY, revenue of the Products Business was negatively impacted by \$913,899. Without this sharp depreciation, the Products Business revenue would have been largely in line with the 2021 FY.

The Engineering Business revenues increased by 35.7%. However, similarly, the foreign subsidiary part of Engineering Business based in the UK was also impacted by the sharp decline of the Pound against the USD. Assuming the same exchange rate as the Previous FY (which our Business Plan is geared to), revenue of the Engineering Business was negatively impacted by \$278,934.

Gross Margin:

| | Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|--|------------------------------------|------------------------------------|--------------------------|
| | 68.3% | 69.2% | |
| | (Gross profit of \$15,190,688) | (Gross profit of \$14,769,718) | Decrease of 0.9% |

Gross Profit Margins reported in our financial results may vary according to several 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 Engineering Business.
- The percentage of consolidated sales attributed to the Engineering Business. The Engineering 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 Engineering 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 13 (Segment Analysis) and 14 (Disaggregation of Revenue) to our audited Consolidated Financial Statements as of October 31, 2022, 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 – see Note 2 paragraph d to our audited Consolidated Financial Statements as of October 31, 2022).

In the 2022 FY Gross Profit Margins for the Marine Technology Business were 80.0% compared to 79.9% in the 2021 FY. For the Engineering Business, these were 45.4% in the 2022 FY compared to 38.6% in the 2021 FY.

Since there are more variable factors affecting Gross Profit Margins in the Marine Technology Business, a table showing a summary break-out of sales generated by the Marine Technology Business in the 2022 FY compared to the 2021 FY is set out below:

| | 2022 FY Products | 2021 FY Products | Percentage Change |
|------------------------|----------------------|----------------------|-------------------|
| Equipment Sales | \$ 8,771,050 | \$ 10,914,124 | (19.6)% |
| Equipment Rentals | 1,844,775 | 2,324,773 | (20.6)% |
| Software Sales | 1,014,867 | 669,968 | 51.5% |
| Services | 3,093,996 | 1,895,357 | 63.2% |
| Total Net Sales | \$ 14,724,688 | \$ 15,804,222 | (6.8)% |

In the 2022 FY the Products Business paid \$596,426 in commission compared to \$605,620 in the 2021 FY as there were less sales via our Agents/Distribution network.

In the Current FY the Products Business generated revenues of \$14,724,688 compared to \$15,804,222. The part of the Products Business revenues generated by the Company's foreign subsidiaries in the UK and Denmark, has been impacted by the significant fall in the Pound and the Danish Kroner against the USD, our reporting currency. Therefore, assuming the same exchange rate of the Previous FY, the Products Business revenues in the Current FY after translating from Pound to USD fell by \$913,899. Without the significant depreciation of the Pound and Kroner against the USD in the Current FY, the Products Business revenue would have been \$15,638,587 and largely in line with the Previous FY.

For more detailed information on the composition and disaggregation of our revenues, please refer to Note 14 ("Disaggregation of Revenue") of our audited Consolidated Financial Statements of October 31, 2022, and 2021.

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Research and Development (R&D):

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 2,237,920 | \$ 2,982,676 | Decrease of 25.0% |

Research and Development costs are, in general, an inherent ongoing cost for the Marine Technology Business operations since it will need to either maintain the products it has in the market or continue to advance these products and its core technology to keep them competitive (both in price and performance) and to expand the product offerings which we have in the market.

Accordingly, we continue to invest in research and development to further our business goals including maintaining our lead in the real time volumetric imaging sonar sector (Marine Technology Business) and our new-to-market diving technology (DAVD).

In the 2022 FY this category of expenditure decreased by 25.0%. The decrease is largely due to reduced spending in this area in the Engineering Business, where expenditures fell by 93.6% and was \$30,420 in the 2022 FY compared to \$473,569 in FY2021. This reflects our strategy to reduce expenditures on the Thermite[®] Octal development until we can gauge both market and customer requirements through the demonstrations of the capability of the Thermite[®].

In 2022 FY the Products Business research and development expenditures fell by 12.0%. This is largely a reflection that we have completed the capital-intensive development phase associated with onward development of the hardware phase our real time 3D/4D/5D/6D sonar technology and our F280 Series[®]. Our developments are now focused on feature enhancements and the like and are largely firmware and software enhancements.

Changes in this category by Segment are set out immediately below:

| Description | Amount | % increase / (decrease) |
|--|--------------|-------------------------|
| Marine Technology Business (Products Segment) 2022FY | \$ 2,207,500 | Decrease 12.0% |
| Marine Technology Business (Products Segment) 2021FY | \$ 2,509,107 | |
| Engineering Business (Services Segment) 2022 FY | \$ 30,420 | Decrease 93.6% |
| Engineering Business (Services Segment) 2021 FY | \$ 473,569 | |

Selling, General and Administrative Expenses (SG&A):

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 7,948,704 | \$ 7,949,525 | Decrease of 0.0% |

SG&A in the 2022 FY was largely in line with 2021 FY expenditures.

Notable factors in our SG&A 2022 FY are:

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 2022 FY and 2021 FY, respectively non-cash items as a percentage of SGA expenses were 20.5% and 20.6%, respectively.

Stock Based Compensation Expenses (*Non-Cash Item*). In the 2022 FY we expensed \$1,130,917 for stock-based compensation as compared to \$1,050,821 in the corresponding 2021 FY, representing an increase of 7.6%.

In the 2021 FY, the Company had \$135,000 as contribution under the UK Government Coronavirus Job Retention Scheme (CJRS), thus reducing SG&A in 2021 FY. There were no contributions under the CJRS in the 2022 FY.

Further discussions on SG&A are set out immediately below.

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| Expenditure | October 31, 2022 | October 31, 2021 | Percentage Change |
|---|------------------|------------------|--------------------|
| Wages and Salaries | \$ 3,752,524 | \$ 3,361,494 | Increase of 11.6% |
| Legal and Professional Fees (including accounting, audit and investment banking services) | \$ 1,419,013 | \$ 1,284,591 | Increase of 10.5% |
| Rent for our various locations | \$ 64,637 | \$ 51,443 | Increase of 25.6% |
| Marketing | \$ 197,258 | \$ 48,214 | Increase of 309.1% |

Although in FY2022 expenditures relating to Wages and Salaries increased by 11.6%, it should be noted that in the 2021 FY we had had contributions under the UK Coronavirus Job Retention Scheme (CJRS) of \$135,000 which reduced this category of expenditures. In the 2022 FY there were no such contributions. In addition, market conditions for wages and salaries have changed significantly. We are seeing a persistently sharp rise in the costs of labor in the market and therefore anticipate that this area of expenditures will continue to increase in the 2023 Financial Year.

In 2022 FY regarding Legal and Professional Fees we recorded \$125,000 as a refund from our UK auditors. This means that in real terms, without this refund, Legal and Professional fees have increased by 20.2% which is a reflection of additional financial resources that we have taken on and an increase in our overall audit fees.

In the 2022 FY expenditures relating to the category of "Rent" increased by 25.6% compared to FY 2021. Rent is not a material expenditure in the Group as most of our premises are owned by the Company, except for premises used in Denmark.

In 2022 FY expenditures relating to the category of "Marketing" increased by 309.1%. In 2021 FY this area of expenditure was depressed due to continued restrictions caused by the Coronavirus Pandemic. In 2022 FY we have been able to participate in more industry-related trade events and anticipate that this category of expenditures will continue to increase in the 2023 Financial Year as we focus our business strategy on business development and sales and marketing.

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Operating Income:

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 5,004,064 | \$ 3,837,517 | Increase of 30.4% |

In the 2022 FY Operating Income increased by 30.4%. The increase in Operating Income is largely due to the increase in Revenue by 4.2% over the 2021 FY coupled with a fall in Total Operating Expenses by 6.8%.

Other Income:

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|--------------------|
| \$ 137,975 | \$ 1,435,382 | Decrease of 90.4 % |

In the 2021 FY Other Income included \$648,872 representing amounts received under the PPP and \$701,568 in ERC which the US Administration made available as part of the Pandemic response package for US companies. In the 2022 FY we did not receive any contributions under the PPP but recorded \$88,917 for ERC. Outside of these exceptional amounts, this category of income is not material for the Company.

Interest Expense:

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 9,704 | \$ 19,655 | Decrease of 50.6% |

This is not a material category of expenses for the Company since in December 2021 we have repaid all indebtedness under our Senior Secured Debenture with HSBC NA. We therefore do not anticipate Interest Expense to be a material item of expenses in our financial statements.

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Net Income before Income taxes for the year ended October 31, 2022, compared to the year ended October 31, 2021

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 5,132,335 | \$ 5,253,244 | Decrease of 2.3% |

In the 2022 FY, Net Income before taxes fell by 2.3% despite an increase in revenues (by 4.2% over the previous 2021 FY), a reduction in Total Operating Expenses by 6.8% and a reduction in the category of Interest Expenses. A factor in this is that in the 2021 FY, Net income before taxes was positively impacted by exceptional items of "Other Income" comprising (PPP and ERC) totaling \$1,350,440. In the 2022 FY Net income before taxes was marginally impacted by exceptional items of "Other Income" comprising ERC and totaling \$88,917. Without these exceptional items in "Other Income" in both the 2022 FY and 2021 FY, Net Income before taxes would have been \$5,043,418 and \$3,902,804, respectively, and representing a 29.2% increase in Net Income before taxes in the 2022 FY.

Net Income after Income taxes for the year ended October 31, 2022, compared to the year ended October 31, 2021

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 4,301,221 | \$ 4,947,765 | Decrease of 13.1% |

In the 2022 FY, Net Income after Income taxes fell by 13.1%. This is due to a number of factors. In the 2021 FY, Net income before taxes was positively impacted by exceptional items of "Other Income" comprising (PPP and ERC) totaling \$1,350,440. In the 2022 FY Net income before taxes was marginally impacted by exceptional items of "Other Income" comprising ERC and totaling \$88,917. Without these exceptional items in "Other Income" in both the 2022 FY and 2021 FY, Net Income before taxes would have been \$5,043,418 and \$3,902,804, representing a 29.2% increase in Net Income before taxes in the 2022FY. Additionally, in the 2022 FY we recorded tax expense of \$831,114 compared to \$305,479 in the 2021 FY, representing an increase in the 2022 FY of 172.1%.

Comprehensive Income for the year ended October 31, 2022, compared to the year ended October 31, 2021

| Year Ended October 31, 2022 | Year Ended October 31, 2021 | Percentage Change |
|-----------------------------|-----------------------------|-------------------|
| \$ 1,231,156 | \$ 5,601,984 | Decrease of 78.0% |

In the 2022 FY, Comprehensive Income was \$1,231,156 compared to \$5,601,984 for the 2021 FY reflecting the adverse effects of currency fluctuations. Comprehensive

Income is affected by fluctuations in translating foreign currency transactions of our foreign subsidiaries into USD relating to both our profit and loss expenses and valuation of our assets and liabilities comprised within our balance sheet. A significant part of the Company's reported financial results emanates from its foreign subsidiaries including in the UK and Denmark, resulting in translation from these foreign subsidiaries functional currencies to USD. In the Current FY the USD strengthened significantly against most major currencies including the Pound, Euro and Danish Kroner. The Company therefore realized significant adjustments relating to foreign currency transactions in the Current Year. In the 2021 FY we realized a gain on foreign currency translation adjustments relating to these transactions of \$654,219 compared to a loss on these transactions in the 2022 FY of \$3,070,065. In the 2022 FY 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 2022 FY, the Pound has fallen significantly against the USD (approximately by 8%). This is a key factor in the loss relating to foreign currency translations transactions in the 2022 FY. See Table 1 under the section which concerns "Inflation & Foreign Currency" which shows the impact of the currency adjustments.

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Segment Analysis

We are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations. Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Overhead includes general corporate administrative costs.

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

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

The following tables summarize certain balance sheet and statement of operations information by reportable segment for the financial years ending October 31, 2022, and 2021, respectively.

| | <u>Marine Technology Business (Products)</u> | <u>Marine Engineering Business (Services)</u> | <u>Overhead</u> | <u>Total</u> |
|---|--|---|-----------------------|---------------------|
| Year Ended October 31, 2022 | | | | |
| Net Revenues | \$ 14,724,688 | \$ 7,501,115 | \$ - | \$ 22,225,803 |
| Cost of Revenues | <u>2,941,569</u> | <u>4,093,546</u> | <u>-</u> | <u>7,035,115</u> |
| Gross Profit | 11,783,119 | 3,407,569 | - | 15,190,688 |
| Research & Development | 2,207,500 | 30,420 | - | 2,237,920 |
| Selling, General & Administrative | <u>2,563,554</u> | <u>2,654,565</u> | <u>2,730,585</u> | <u>7,948,704</u> |
| Total Operating Expenses | 4,771,054 | 2,684,985 | 2,730,585 | 10,186,624 |
| Income (Loss) from Operations | 7,012,065 | 722,584 | (2,730,585) | 5,004,064 |
| Other Income (Expense) | | | | |
| Other Income | 55,715 | 79,204 | 3,056 | 137,975 |
| Interest Expense | <u>(9,233)</u> | <u>(71)</u> | <u>(400)</u> | <u>(9,704)</u> |
| Total Other Income (Expense) | <u>46,482</u> | <u>79,133</u> | <u>2,656</u> | <u>128,271</u> |
| Income (Loss) before Income Taxes | 7,058,547 | 801,717 | (2,727,929) | 5,132,335 |
| Income Tax (Expense) Benefit | | | | |
| Current Tax (Expense) Benefit | (868,162) | 39,422 | (176,400) | (1,005,140) |
| Deferred Tax Benefit (Expense) | <u>31,907</u> | <u>(41,657)</u> | <u>183,776</u> | <u>174,026</u> |
| Total Income Tax (Expense) Benefit | <u>(836,255)</u> | <u>(2,235)</u> | <u>7,376</u> | <u>(831,114)</u> |
| Net Income (Loss) | <u>\$ 6,222,292</u> | <u>\$ 799,482</u> | <u>\$ (2,720,553)</u> | <u>\$ 4,301,221</u> |

Supplemental Disclosures

| | | | | |
|---|---------------|---------------|--------------|---------------|
| Total Assets | \$ 33,348,805 | \$ 12,662,109 | \$ 916,544 | \$ 46,927,458 |
| Total Liabilities | \$ 2,432,750 | \$ 526,195 | \$ 585,704 | \$ 3,544,649 |
| Revenues from Intercompany Sales- eliminated from sales above | \$ 2,406,717 | \$ 396,015 | \$ 2,720,000 | \$ 5,522,732 |
| Depreciation and Amortization | \$ 602,583 | \$ 96,776 | \$ 39,370 | \$ 738,729 |
| Purchases of Long-lived Assets | \$ 1,123,475 | \$ 36,862 | \$ 90,887 | \$ 1,251,224 |

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| | <u>Marine Technology Business (Products)</u> | <u>Marine Engineering Business (Services)</u> | <u>Overhead</u> | <u>Total</u> |
|--|--|---|-----------------|--------------|
|--|--|---|-----------------|--------------|

Year Ended October 31, 2021

| | | | | |
|---|---------------------|-------------------|-----------------------|---------------------|
| Net Revenues | \$ 15,804,222 | \$ 5,527,305 | \$ - | \$ 21,331,527 |
| Cost of Revenues | <u>3,169,835</u> | <u>3,391,974</u> | <u>-</u> | <u>6,561,809</u> |
| Gross Profit | 12,634,387 | 2,135,331 | - | 14,769,718 |
| Research & Development | 2,509,107 | 473,569 | - | 2,982,676 |
| Selling, General & Administrative | <u>3,231,733</u> | <u>2,304,300</u> | <u>2,413,492</u> | <u>7,949,525</u> |
| Total Operating Expenses | 5,740,840 | 2,777,869 | 2,413,492 | 10,932,201 |
| Income (Loss) from Operations | 6,893,547 | (642,538) | (2,413,492) | 3,837,517 |
| Other Income (Expense) | | | | |
| Other Income | 354,373 | 1,079,374 | 1,635 | 1,435,382 |
| Interest Expense | <u>(1,738)</u> | <u>(365)</u> | <u>(17,552)</u> | <u>(19,655)</u> |
| Total Other Income (Expense) | <u>352,635</u> | <u>1,079,009</u> | <u>(15,917)</u> | <u>1,415,727</u> |
| Income (Loss) before Income Taxes | 7,246,182 | 436,471 | (2,429,409) | 5,253,244 |
| Income Tax (Expense) Benefit | | | | |
| Current Tax Benefit (Expense) | 35,032 | (51,624) | - | (16,592) |
| Deferred Tax (Expense) Benefit | <u>(418,338)</u> | <u>409,205</u> | <u>(279,754)</u> | <u>(288,887)</u> |
| Total Income Tax (Expense) Benefit | <u>(383,306)</u> | <u>357,581</u> | <u>(279,754)</u> | <u>(305,479)</u> |
| Net Income (Loss) | <u>\$ 6,862,876</u> | <u>\$ 794,052</u> | <u>\$ (2,709,163)</u> | <u>\$ 4,947,765</u> |

Supplemental Disclosures

| | | | | |
|---|---------------|---------------|--------------|---------------|
| Total Assets | \$ 30,631,442 | \$ 14,117,747 | \$ 716,230 | \$ 45,465,419 |
| Total Liabilities | \$ 3,166,999 | \$ 849,306 | \$ 400,041 | \$ 4,416,346 |
| Revenues from Intercompany Sales- eliminated from sales above | \$ 2,075,387 | \$ 355,608 | \$ 3,470,000 | \$ 5,900,995 |
| Depreciation and Amortization | \$ 780,434 | \$ 114,022 | \$ 29,617 | \$ 924,073 |
| Purchases of Long-lived Assets | \$ 793,995 | \$ 51,907 | \$ 118,302 | \$ 964,204 |

Coda Octopus Martech and Coda Octopus Colmek (“Services Segment” or “Marine Engineering Business”) are providing engineering services as sub-contractors mainly to prime defense contractors and Coda Octopus Products operations are comprised primarily of product sales, technology solutions sales, rental of equipment and/or software and associated services (“Products Segment” or “Marine Technology Business”).

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

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

Liquidity and Capital Resources

As of October 31, 2022, the Company had an accumulated deficit of \$14,176,636, working capital of \$33,542,200 and stockholders’ equity of \$43,382,809. For the year then ended, the Company generated cash flow from operations of \$6,726,967.

We believe that our current level of cash and cash generation will be sufficient to meet our short and medium-term liquidity needs. As of October 31, 2022, we had cash on hand of \$22,927,371 and both billed and unbilled receivables of approximately \$3,472,715. Our current cash balance represents approximately 35 months of Selling, General and Administrative Expenses. The Company continues to critically evaluate the level of expenses that we incur and reduce those expenses as appropriate.

We also have access to a revolving line of credit of \$4 million from HSBC NA. This line of credit is available to the Company for short-term working capital purpose. All amounts under the Revolving Line of Credit are payable at the end of each financial year. The facility was renewed for another year until November 2023. To date, the Company has not had reason to borrow any funds for its operations under this credit line.

Our main liquidity issues are forward buying components and inventory for our products which encompass specialized electronics for which there is no after-market except for the products to which they are designed for, funding our research and development program (“R&D”) which requires significant expenditures in attracting engineering skills and incurring non-recoverable costs for researching, developing and prototyping products and managing our currency exposure and business development and marketing costs required for the success of our business.

Operating Activities

Net cash generated from operating activities for the year ended October 31, 2022, was \$6,726,967. We recorded net income for the period of \$4,301,221. Other items in uses

and sources of funds from operations included non-cash charges related to depreciation and amortization, deferred tax asset and stock-based compensation, which collectively totaled \$1,676,563. Changes in operating assets increased net cash from operating activities by \$1,205,916 and changes in current liabilities decreased net cash from operating activities by \$456,733.

Investing Activities

Net cash used in investing activities for the year ended October 31, 2022, was \$556,560

Financing Activities

Net cash used in financing activities for the year ended October 31, 2022, was \$91,896.

Secured Promissory Note

On April 28, 2017, the Company together with its wholly owned US subsidiaries, Coda Octopus Products, Inc. and Coda Octopus Colmek, Inc., entered into a loan agreement with HSBC Bank NA for a loan in the principal amount of \$8,000,000. The annual interest rate was fixed at 4.56%. The loan was secured by all assets of the Company and its U.S. subsidiaries and of three of the Company's overseas subsidiaries. The entire remaining balance of \$63,559 was repaid by the end of the 2021 calendar year.

Foreign Currency

The Company maintains its books in local currency: US Dollars for its US operations, British Pounds for its United Kingdom operations, Danish Kroner for its Danish operations, Australian Dollars for its Australian operations and Indian Rupees for its Indian Operations.

For the 2022 FY, 46% of the Company's revenue were conducted inside the United States and 54% outside the United States through its wholly owned subsidiaries in the United Kingdom and Denmark. As a result, currency fluctuations may significantly affect the Company's sales, profitability, balance sheet valuations and financial position when the foreign currencies of its international operations are translated into U.S. dollars for financial reporting purposes. In addition, we are also subject to currency fluctuation risks with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits, balance sheet valuations and financial position. Because differing portions of our revenues and costs are denominated in foreign currency, movements in those currencies could impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens and not correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risk. However, as a strategy the Company is endeavoring to transact its sales by its foreign subsidiaries in USD. In the Current FY 46% of our revenue was in USD compared to 27% in the Previous FY.

The translation of the Company's denominated balance sheets and results of operations into US dollars (USD) are affected by changes in the average value of USD against the currencies of our foreign subsidiaries operating in GBP, DKK and AUD (our limited operations in INR are not considered material for this purpose) included in our consolidated results.

| | | | |
|---|---------------------------------------|---|---|
| British Operations 2022 FY and 2021 FY | British Pound against USD | Average exchange rate was \$ 1.2552 to the GBP against \$1.3758 USD | A decrease in the value of the GBP against the USD by 8.8% |
| Australian Operations 2022 FY and 2021 FY | Australian Dollar ("AUD") against USD | Average exchange rate was \$0.7001 against \$0.7531 USD | A decrease in the value of the AUD against the USD by 7.0% |
| Danish Operations 2022 FY and 2021 FY | Danish Kroner (DKK) against USD | Average exchange rate was \$0.1433 against \$0.1603 USD to the DKK | A decrease in the value of the DKK against the USD by 10.6% |

These are the values we have used in the calculations below which show the impact of these currency fluctuations on our operations in the 2022 FY:

| | British Pounds | | Australian Dollar | | Danish Kroner | | USD | | |
|---------------------|----------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------|--------------|
| | Actual Results | Constant Rates | Actual Results | Constant Rates | Actual Results | Constant Rates | Actual Results | Constant Rates | Total Effect |
| Revenues | 10,039,273 | 11,004,589 | - | - | 1,917,373 | 2,144,890 | 11,956,646 | 13,149,479 | (1,192,833) |
| Costs | 8,666,591 | 9,499,918 | 24,037 | 25,857 | 241,451 | 270,102 | 9,000,932 | 9,868,067 | (867,135) |
| Net profit (losses) | 1,372,682 | 1,504,671 | (24,037) | (25,857) | 1,675,922 | 1,874,788 | 2,955,714 | 3,281,412 | (325,698) |
| Assets | 20,236,412 | 24,059,112 | 26,825 | 31,570 | 3,040,207 | 3,559,146 | 23,305,960 | 27,652,607 | (4,346,647) |
| Liabilities | (1,140,131) | (1,355,504) | - | - | (72,230) | (84,559) | (1,211,331) | (1,438,925) | 227,594 |
| Net assets | 19,096,281 | 22,703,608 | 26,825 | 31,570 | 2,967,977 | 3,474,587 | 22,094,629 | 26,213,682 | (4,119,053) |

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, decreased net income for the year by \$325,698 and decreased net assets by \$4,119,053. These amounts are material to our overall financial results.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

Inflation affects our Business in several ways including:

- Cost of Operations (including wages and salaries)
- Bill of Material Costs of our Products

The effect of inflation on the Company's 2022 FY results has been benign due to a number of factors. Wages and Salaries for our Current FY were in place prior to the upturn in inflation and also our Products Business had significant inventory which had been sourced prior to the upturn in inflation.

We therefore expect that inflation will be more impactful in the 2023 financial year.

While in the past few years we have seen fairly benign rates of inflation in labor and materials in the countries in which we operate and those countries from which we source raw materials and components from and those that we sell to, since the middle of 2022 FY we have been seeing worrying signs of inflation in almost all countries. In the US, UK and Denmark, countries in which we have operations, inflation has moved to 7.7%, 11.1%, and 10.1% as of October 31, 2022, respectively.

Specifically, we are seeing inflation affecting staff costs, both in significantly increased demands from potential new recruits and existing staff members whose living wages have been eroded by inflation.

We also see inflation in our sourcing of components, both run of the mill such as metalwork and also more particularly specialist components, including electronics. We are hit in two ways, the first being the “normal” increase in prices due to the basic effects of inflation, and the second being an extra premium (combined with longer lead times) being sought for scarcity. Some of this scarcity being brought about by the effects of COVID in far eastern suppliers.

Longer lead times, some of which have now extended to a year or more also bring an additional inflation risk to the Company as we are unable to place purchase orders on our suppliers until we have a customer contract, and our suppliers are unwilling or unable to provide a fixed cost to us as they in turn are unable to get fixed prices for their components.

The levels of our margins are therefore at risk and preservation of our margins is dependent upon our ability to pass on these increases to our customers which is improbable, particularly since our customer base is global (in the Far East inflation profiles are very different). We are also at risk of high staff turnover if we cannot offer inflation-proof wages in a market that is ultra-competitive due to demand outstripping supply.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index of Financial statements following Part III of this Report for a listing of the Company’s Consolidated Financial Statements and Notes thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 (the “SEC”) 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, performed 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 October 31, 2022. Based upon that evaluation the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were ineffective as a result of the material weakness identified below.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

In light of the conclusion that our internal disclosure controls are ineffective as of October 31, 2022, we have applied procedures and processes as necessary to ensure the reliability of our financial reporting in regard to this annual report. Accordingly, the Company believes, based on its knowledge, that: (i) this annual report does not contain any untrue statement of a material fact or omit a material fact; and (ii) the financial statements, and other financial information included in this annual report, fairly presented in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in this annual report.

Management’s Report on Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed by, or under the supervision of, a public company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles (“US GAAP”) including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of October 31, 2022. In making this assessment, our management used the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on its assessment, our management believes that, as of October 31, 2022, our internal control over financial reporting was ineffective based on those criteria.

We have identified a material weakness concerning a lack of adequate processes and procedures regarding the review of the elimination entries pertaining to the consolidation process.

We are in the process of implementing new controls and procedures that we believe will address the material weakness described above and will carefully monitor the effectiveness of these controls and procedures over the next several quarterly consolidations to determine their effectiveness in addressing the material weakness.

We will implement both additional qualitative and quantitative controls over eliminations including implementing metrics that will be compared to each quarter’s results and deviations from those metrics will be investigated before the consolidation is considered complete. We have also expanded the review of the quarterly and annual consolidation process.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

During the year ended October 31, 2022, except as disclosed above, there were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-

15(f) and 15d–15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. Other Information

Not Applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following persons are the executive officers and directors as of the date hereof:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------------------|------------|---|
| Annamarie Gayle | 58 | Chief Executive Officer and Chairman |
| Nathan Parker | 45 | Chief Financial Officer |
| Kevin Kane | 58 | Chief Executive Officer (Coda Octopus Colmek) |
| Blair Cunningham | 53 | President of Technology |
| Michael Hamilton | 75 | Director |
| Captain Charlie Plumb | 80 | Director |
| Mary Losty | 62 | Director |
| Tyler G. Runnels | 66 | Director |

Annamarie Gayle has been our Chief Executive Officer and a member of the Board of Directors since 2011 and our Chairman since March 2017. She is also our Chief Executive Officer for our flagship products business, Coda Octopus Products, Limited (UK) since 2013. Prior thereto, she spent two years assisting with the restructuring of our Company. She previously served with the Company as Senior Vice President of Legal Affairs between 2006 and 2007. Earlier in her career she worked for a leading City-London law firm specializing in Intellectual Property Rights, the United Nations and the European Union. Ms. Gayle has a strong background in restructuring and has spent more than 12 years in a number of countries where she has been the lead adviser to a number of transitional administrations on privatizing banks and reforming state-owned assets in the Central Eastern European countries including banking, infrastructure, mining and telecommunications assets. Ms. Gayle has also managed a number of large European Union funded projects providing transitional support and capacity. Ms. Gayle holds a Law degree gained at the University of London and a Master of Law degree in International Commercial Law from Cambridge University and has completed her professional law exams to practice law in England & Wales. Because of her wealth of experience in corporate governance, large scale project management, restructuring, strategy, structuring and managing corporate transactions, we believe that she is highly qualified to act as our Chief Executive Officer.

Nathan Parker joined the Company in the capacity as our Chief Financial Officer in June 2022. From 2021 to 2022, Mr. Parker earned a Master of Business Administration from Michigan State University and a Bachelor of Science, Financial Services, from Brigham Young University. Because of Mr. Parker’s background and financial experience, the Company believes that he is highly qualified to serve as the Chief Financial Officer.

Blair Cunningham joined the Company in July 2004 and has had a number of roles in the Company including Chief Technology Officer between July 2004 and July 2005. He is currently our President of Technology. Mr. Cunningham received an HND in Computer Science in 1989 from Moray College of Further Education, Elgin, Scotland. Because of Mr. Cunningham’s expertise in technology, systems software development and project management, the Company believes that he is highly qualified to serve in his current roles.

Kevin Kane joined the Company in July 2021. He is the Chief Executive Officer of Coda Octopus Colmek, Inc. (“Colmek”). Mr. Kane holds a Bachelor of Science Degree in Computer Engineering from the Rochester Institute of Technology, and a Master of Business Administration degree from Saint John Fisher College (USA). Because of Mr. Kane’s background and experience working with Prime Defense Contractors in the area of business development, the Company believes that he is highly qualified to serve as the Divisional Chief Executive Officer of Colmek.

Michael Hamilton was our Chairman of the Board between June 2010 and March 2017. He is currently serving as an independent director of our Board. He has been a member of the board of directors and a member of the audit committee of Tian Ruixiang Holdings Ltd, a Nasdaq traded public company, since 2020. Since 2014, Mr. Hamilton has provided accounting and valuation services for a varied list of clients. He was Senior Vice President of Powerlink Transmission Company from 2011 through 2014. From 1988 to 2003, he was an audit partner at PricewaterhouseCoopers. He holds a Bachelor of Science in Accounting from St. Frances College and is a certified public accountant and is accredited in business valuation. Because of Mr. Hamilton’s background in auditing, strategic corporate finance solutions, financial management and financial reporting, we believe that he is highly qualified to be a member of our Board of Directors.

G. Tyler Runnels was elected as a director at the 2018 annual meeting. Mr. Runnels has nearly 30 years of investment banking experience including debt and equity financings, private placements, mergers and acquisitions, initial public offerings, bridge financings, and financial restructurings. Since 2003 Mr. Runnels has been the Chairman and Chief Executive Officer of T.R. Winston & Company, LLC, an investment bank and member of FINRA, where he began working in 1990. Mr. Runnels was an early-stage investor in our company and T.R. Winston & Company, LLC has served as our exclusive placement agent in one of our private placements raising early rounds of capital for our company. Mr. Runnels has successfully completed and advised on numerous transactions for clients in a variety of industries, including healthcare, oil and gas, business services, manufacturing, and technology. Mr. Runnels is also responsible for working with high-net-worth clients seeking to diversify their portfolios to include real estate products through established relationships with real estate brokers, accountants, attorneys, qualified intermediaries and financial advisors. Prior to joining T.R. Winston & Co., LLC, Mr. Runnels held the position of Senior Vice President of Corporate Finance for H.J. Meyers & Company, a regional investment bank. Mr. Runnels received a B.S. and MBA from Pepperdine University. Mr. Runnels holds FINRA Series 7, 24, 55, 63 and 79 licenses.

Captain J. Charles Plumb has been a member of Coda’s Board of Directors since September 2019. Captain Plumb is a retired U.S. Navy fighter pilot. On his 75th combat mission, just five days before the end of his tour in Vietnam, he was shot down over Hanoi, taken prisoner and tortured. During his nearly six years as a prisoner of war, he distinguished himself as a pro in underground communications. He was a great inspiration to all the other POWs and served as chaplain for two years. Following his repatriation, Captain Plumb continued his Navy flying career in Reserve Squadrons where he flew A-4 Sky Hawks, A-7 Corsairs and FA-18 Hornets. His last two commands as a Naval Reservist were on the Aircraft Carrier Corral Sea and at Fighter Air Wing in California. He retired from the United States Navy after 28 years of service. His military honors include two Purple Hearts, the Legion of Merit, the Silver Star, the Bronze Star and the P.O.W. Medal. He has been a motivational speaker, consultant and executive coach since 1973. His clients include General Motors, FedEx, Hilton, Aflac, the U.S. Navy, BMW and NASA. Since 2010, he has been member of the Board of Directors of the Lightspeed Aviation Foundation. Captain Plumb earned a B.S. in electrical engineering from the U.S. Naval Academy at Annapolis. We selected Captain Plumb to be a member of the Board of Directors because of his close ties to the U.S. Defense establishment.

Mary Losty has been a director since July 2017. She is a private investor in both US equities and real estate. She currently serves as Commissioner on both Dorchester County

and the City of Cambridge, Maryland's Planning and Zoning Commissions. She also serves as a Committeeman for the Eastern Shore Land Conservancy as well as the Pine Street Committee of Cambridge, MD. She served as a member of the Board of Procera Networks, Inc. from March 2007 until that company was successfully sold in June 2015 to a private equity firm. She was a member of that company's Audit Committee and the former Chairman of the Nominating and Governance Committee. Ms. Losty was a director of Blue Earth, Inc. (formerly Genesis Fluid Solutions Holdings, Inc.) from 2009 to 2011. Ms. Losty retired in 2010 as the General Partner at Cornwall Asset Management, LLC, a portfolio management firm located in Baltimore, Maryland, where she was responsible for the firm's investment in numerous companies since 1998. Ms. Losty's prior experience includes working as a portfolio manager at Duggan & Associates from 1992 to 1998 and as an equity research analyst at M. Kimelman & Company from 1990 to 1992. Prior to that, she worked as an investment banker at Morgan Stanley and Co., and for several years prior to that she was the top aide to James R. Schlesinger, a five-time U.S. cabinet secretary. Ms. Losty received both her BS and JD from Georgetown University, the latter with magna cum laude distinction. We believe that Ms. Losty's extensive dealings with the investment community makes her highly qualified to be a member of our Board of Directors.

Family Relationships

Other than Tyler Runnels and Charlie Plumb who are brothers in law, none of our Directors are related by blood, marriage, or adoption to any other Director, executive officer, or other key employees.

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Board Leadership Structure

The Board of Directors is currently chaired by the Chief Executive Officer of the Company, Annmarie Gayle. The Company believes that combining the positions of Chief Executive Officer and Chairman of the Board of Directors helps to ensure that the Board of Directors and management act with a common purpose. Integrating the positions of Chief Executive Officer and Chairman can provide a clear chain of command to execute the Company's strategic initiatives. The Company also believes that it is advantageous to have a Chairman with an extensive history with, and knowledge of, the Company. Notwithstanding the combined role of Chief Executive Officer and Chairman, key strategic initiatives and decisions involving the Company are discussed and approved by the entire Board of Directors. The Company believes that the current leadership structure and processes maintains an effective oversight of management and independence of the Board of Directors as a whole without separate designation of a lead independent director. However, the Board of Directors will continue to monitor its functioning and will consider appropriate changes to ensure the effective independent function of the Board of Directors in its oversight responsibilities.

Independence of the Board of Directors and its Committees

After review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its Independent Registered Public Accounting Firm, the Board of Directors has determined that all the Company's directors are independent within the meaning of the applicable NASDAQ listing standards, except Ms. Gayle, the Company's Chairman and Chief Executive Officer. The Board of Directors met 4 times and acted by unanimous written consent 4 times during the fiscal year ended October 31, 2022. Each member of the Board of Directors attended all meetings of the Board of Directors held in the last fiscal year during the period for which he or she was a director and of the meetings of the committees on which he or she served in the last fiscal year during the period for which he or she was a committee member.

The Board of Directors has three committees: the Audit Committee, the Compensation Committee and the Nominating Committee. Below is a description of each committee of the Board of Directors. The Board of Directors has determined that each member of each committee meets the applicable rules and regulations regarding "independence" and that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment with regard to the Company.

Audit Committee

The Audit Committee of the Board of Directors oversees the Company's corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions. The Audit Committee, among other things: evaluates the performance, and assesses the qualifications, of the Independent Registered Public Accounting Firm; determines and pre-approves the engagement of the Independent Registered Public Accounting Firm to perform all proposed audit, review and attest services; reviews and pre-approves the retention of the Independent Registered Public Accounting Firm to perform any proposed, permissible non-audit services; determines whether to retain or terminate the existing Independent Registered Public Accounting Firm or to appoint and engage a new independent registered Public Accounting Firm for the ensuing year; confers with management and the Independent Registered Public Accounting Firm regarding the effectiveness of internal control over financial reporting; establishes procedures as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviews the financial statements to be included in the Company's Annual Report on Form 10-K and the Company's periodic quarterly filings on Form 10-Q, recommends whether or not such financial statements should be so included; and discusses with management and the Independent Registered Public Accounting Firm the results of the annual audit and review of the Company's quarterly financial statements.

The Audit Committee is currently composed of three outside directors: Michael Hamilton (Chairman), Mary Losty and Captain J. Charles Plumb. The Audit Committee met four times during the fiscal year ended October 31, 2022. The Audit Committee Charter is available on the Company's website, www.codaoctopusgroup.com.

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The Board of Directors periodically reviews the NASDAQ listing standards' definition of independence for Audit Committee members and has determined that all members of the Company's Audit Committee are independent (as independence is currently defined in Rule 5605(c)(2)(A) of the NASDAQ listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act, as amended). The Board of Directors has determined that Michael Hamilton qualifies as an "audit committee financial expert," as defined in applicable SEC rules. The Board of Directors made a qualitative assessment of Mr. Hamilton's level of knowledge and experience based on a number of factors, including his formal education and his service in executive capacities having financial oversight responsibilities.

Compensation Committee

The Compensation Committee of the Board of Directors reviews, modifies and approves the overall compensation strategy and policies for the Company. The Compensation Committee, among other things, reviews and approves corporate performance goals and objectives relevant to the compensation of the Company's officers; determines and approves the compensation and other terms of employment of the Company's Chief Executive Officer; determines and approves the compensation and other terms of employment of the other officers of the Company; and administers the Company's stock option and purchase plans, pension and profit sharing plans and other similar programs.

The Compensation Committee is composed of three outside directors: Michael Hamilton (Chairman), Mary Losty and G. Tyler Runnels. All members of the Compensation Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards). The Compensation Committee met two times during the fiscal year ended October 31, 2022. The Compensation Committee Charter is available on the Company's website at: www.codaoctopusgroup.com.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee has at any time been an employee of ours. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Nominating Committee

The Nominating Committee of the Board of Directors is responsible for, among other things, identifying, reviewing and evaluating candidates to serve as directors of the Company; reviewing, evaluating and considering incumbent directors; recommending to the Board of Directors candidates for election to the Board of Directors; making recommendations to the Board of Directors regarding the membership of the committees of the Board of Directors, and assessing the performance of the Board of Directors.

The Nominating and Governance Committee is currently composed of three outside directors: Mary Losty (Chair), G. Tyler Runnels and Captain J. Charles Plumb. All members of the Nominating Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards). The Nominating Committee met one time during the fiscal year ended October 31, 2022. The Nominating Committee Charter is available on the Company's website at www.codaoctopusgroup.com.

The Nominating Committee has not established any specific minimum qualifications that must be met for recommendation for a position on the Board of Directors. Instead, in considering candidates for director the Nominating Committee will generally consider all relevant factors, including among others the candidate's applicable education, expertise and demonstrated excellence in his or her field, the usefulness of the expertise to the Company, the availability of the candidate to devote sufficient time and attention to the affairs of the Company, the candidate's reputation for personal integrity and ethics and the candidate's ability to exercise sound business judgment. Other relevant factors, including diversity, experience and skills, will also be considered. Candidates for director are reviewed in the context of the existing membership of the Board of Directors (including the qualities and skills of the existing directors), the operating requirements of the Company and the long-term interests of its stockholders.

The Nominating Committee considers each director's executive experience and his or her familiarity and experience with the various operational, scientific and/or financial aspects of managing companies in our industry.

With respect to diversity, the Nominating Committee seeks a diverse group of individuals who have executive leadership experience and a complementary mix of backgrounds and skills necessary to provide meaningful oversight of the Company's activities. The Company meets the NASDAQ standards for diversity on the board of directors. The Nominating Committee annually reviews the Board's composition in light of the Company's changing requirements. The Nominating Committee uses the Board of Director's network of contacts when compiling a list of potential director candidates and may also engage outside consultants. Pursuant to its charter, the Nominating Committee will consider, but not necessarily recommend to the Board of Directors, potential director candidates recommended by stockholders. All potential director candidates are evaluated based on the factors set forth above, and the Nominating Committee has established no special procedure for the consideration of director candidates recommended by stockholders.

Employment Agreements

Anmarie Gayle

Pursuant to the terms of an employment agreement dated March 16, 2017, the Company employs Ms. Gayle as its Chief Executive Officer on a full-time basis and a member of its Board of Directors. Effective July 1, 2019, Ms. Gayle's annual salary was revised from \$230,000 to \$305,000. She is also entitled to an annual performance bonus of up to \$100,000, upon achieving certain targets that are to be defined on an annual basis. The agreement provides for 30 days of paid vacation in addition to public holidays observed in Denmark where she is resident.

The agreement has no definitive term and may be terminated upon twelve months' prior written notice by Ms. Gayle. In the event that the Company terminates her at any time without cause, she is entitled to a payment equal to her annual salary as well as a separation bonus of \$150,000. The Company may terminate the agreement for cause, immediately and without notice. Among others, "for cause" includes gross misconduct, a serious or repeated breach of the agreement and negligence and incompetence as reasonably determined by the Company's Board. The agreement includes a 12-month non-compete and non-solicitation provision.

Blair Cunningham

Under the terms of an employment contract dated January 1, 2013, our wholly owned subsidiary Coda Octopus Products, Inc. employs Blair Cunningham as its Chief Executive Officer and President of Technology. He is being paid an annual base salary of \$200,000 with effect from January 1, 2020, subject to review by the Company's Chief Executive Officer. Since January 2022, Mr. Cunningham's annual base salary was revised to \$225,000 per annum. Mr. Cunningham is entitled to 25 vacation days in addition to any public holiday.

The agreement may be terminated only upon twelve-month prior written notice without cause. The Company may terminate the agreement for cause, immediately and without notice. Among others, "for cause" includes gross misconduct, a serious or repeated breach of the agreement and negligence and incompetence as reasonably determined by the Company's Board. The agreement includes an 18-month non-compete and non-solicitation provision.

Nathan Parker

Pursuant to the terms of an Employment Agreement dated May 24, 2022, Nathan Parker was appointed the Chief Financial Officer of the Company commencing July 6, 2021. The Employment Agreement provides for an annual base salary of \$230,000. As a further inducement, he was paid \$20,000 signing on bonus which is subject to a claw back in the event that he leaves his position within 12 months of inception. He was also granted restricted stock units having a value of \$50,000 out of the Company's 2017 Stock Incentive Plan that vest in three equal annual instalments commencing on the first anniversary of grant.

The agreement may be terminated by the Company at any time. In the event that the Company terminates the employment agreement for whatever reason, the following severance payments apply:

| | |
|----------------------|----------------------|
| Year 1 of employment | 1 Month Base Salary |
| Year 2 of employment | 2 Month Base Salary |
| Year 3 of employment | 6 Months Base Salary |

The agreement includes an 18-month non-compete and non-solicitation provision.

Kevin Kane

Pursuant to the terms of an Employment Agreement dated May 7, 2021, as amended and modified, Kevin Kane was appointed the Chief Executive Officer of Colmek commencing July 6, 2021. The Employment Agreement provides for an annual base salary of \$200,000. He will also be eligible for an annual performance bonus based on the Company's financial performance. Assuming that the Company meets its targets during the current fiscal year, Mr. Kane will be paid a performance bonus of \$12,000. As a further inducement, he was granted 15,000 restricted stock units out of the Company's 2017 Stock Incentive Plan that vest in three equal annual instalments commencing on the first anniversary of grant.

The agreement may be terminated by the Company at any time. In the event that the Company terminates the employment agreement for whatever reason, the following severance payments apply:

Year 1 of employment
Year 2 of employment
Year 3 of employment

One Month
Three Months
Six Months

The agreement includes a 12-month non-compete and non-solicitation provision.

Code of Ethics

We have adopted a code of ethics for all our employees, including our chief executive officer, principal financial officer and principal accounting officer or controller, and/or persons performing similar functions, which is available on our website, under the link entitled "Code of Ethics".

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ITEM 11. EXECUTIVE COMPENSATION

The Summary Compensation Table shows certain compensation information for services rendered for the fiscal years ended October 31, 2022 and 2021, by our executive officers. The following information includes the dollar value of base salaries, bonus awards, stock options grants and certain other compensation, if any, whether paid or deferred.

| Name and Principal Position | Year | Salary | Bonus | Restricted Stock Awards | Option Awards | * All Other Compensation | Total |
|--|------|---------|---------|-------------------------|---------------|--------------------------|---------|
| | | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Annamarie Gayle Chief Executive Officer | 2022 | 305,000 | 100,000 | -0- | -0- | -0- | 405,000 |
| | 2021 | 305,000 | 100,000 | | | -0- | 405,000 |
| Michael Midgley** Chief Financial Officer | 2022 | 89,852 | -0- | -0- | -0- | 10,447 | 100,299 |
| | 2021 | 193,846 | -0- | 26,400 | -0- | 16,633 | 236,879 |
| Kevin Kane Divisional Chief Executive Officer | 2022 | 200,000 | -0- | -0- | -0- | 19,601 | 219,601 |
| | 2021 | 86,615 | -0- | 132,000 | -0- | 431 | 219,046 |
| Blair Cunningham President of Technology | 2022 | 219,231 | 6,000 | -0- | -0- | 22,541 | 247,772 |
| | 2021 | 213,160 | -0- | 26,400 | -0- | 20,857 | 260,417 |
| Nathan Parker*** Chief Financial Officer | 2022 | 79,615 | 20,000 | 50,000 | -0- | 2,532 | 152,147 |
| | 2021 | -0- | -0- | -0- | -0- | -0- | -0- |

*The amounts described in the category of "All Other Compensation" comprise Health, Dental, Vision, Short Term Disability, Long Term Disability and Accidental Death and Dismemberment insurance premiums which the Company contributed to the officers' identified plan.

** Mike Midgley retired from his position as Chief Financial Officer in June 30,2022.

*** Mr. Nathan Parker took over as Chief Financial Officer of the Company in June 2022.

Grants of restricted stock awards as of October 31, 2022

| Name | Grant Date | All other restricted awards; number of securities underlying restricted stock awards | Exercise or base price of restricted stock awards | Grant date fair value of restricted stock awards |
|------------------|------------|--|---|--|
| Kevin Kane | 6/9/2021 | 10,000 | 8.80 | 88,000 |
| Blair Cunningham | 6/9/2021 | 3,000 | 8.80 | 26,400 |
| Nathan Parker | 6/1/2022 | 9,506 | 5.26 | 50,000 |

Outstanding option awards at October 31, 2022

| Name | Option Awards | | | |
|------------------|---|---|---|------------------------|
| | Number of securities underlying unexercised options exercisable | Number of securities underlying unexercised options unexercisable | Exercise or base price of option awards | Option expiration date |
| Annamarie Gayle | 66,667 | - | 4.62 | 3/23/2023 |
| Blair Cunningham | 50,000 | - | 4.62 | 3/23/2023 |

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Option exercises for October 31, 2022

| Name | Option Awards | |
|-----------------|---------------------------------------|----------------------------|
| | Number of shares acquired on exercise | Value realized on exercise |
| Annamarie Gayle | - | - |
| Michael Midgley | 4,818 | 26,065 |

DIRECTOR COMPENSATION

The following table sets forth the compensation paid to each of our directors (who are not also officers of the Company) for the fiscal year ended October 31, 2022, in connection with their services to the company. In accordance with the SEC's rules, the table omits columns showing items that are not applicable. Except as set forth in the table, no other persons were paid any compensation for director services.

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Total (\$) |
|-------------------------|--|----------------------|---------------|
| Michael Hamilton | 40,000 | - | 40,000 |
| Captain J Charles Plumb | 40,000 | - | 40,000 |
| Mary Losty | 40,000 | - | 40,000 |
| Tyler G Runnels | 40,000 | - | 40,000 |

Stock Incentive Plans

The Company has two active Stock Incentive Plans - 2017 Stock Incentive Plan and 2021 Stock Incentive Plan.

2017 Stock Incentive Plan

On December 6, 2017, the Board of Directors adopted the 2017 Stock Incentive Plan (the "2017 Plan"). The purpose of the Plan is to advance the interests of the Company and its stockholders by enabling the Company and its subsidiaries to attract and retain qualified individuals through opportunities for equity participation in the Company, and to reward those individuals who contribute to the Company's achievement of its economic objectives. The Plan was adopted subject to stockholders' approval. This Plan was approved by Stockholders at its meeting held on July 24, 2018.

The maximum number of shares of Common Stock that will be available for issuance under the Plan is 913,612. The shares available for issuance under the Plan may, at the election of the Committee, be either treasury shares or shares authorized but unissued, and, if treasury shares are used, all references in the Plan to the issuance of shares will, for corporate law purposes, be deemed to mean the transfer of shares from treasury.

The Plan is administered by the Compensation Committee of the Board of Directors which has the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) eligible recipients; (ii) the nature and extent of the Incentive Awards to be made to each Participant; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject.

During the fiscal year ended October 31, 2022, the Company granted 64,687 restricted stock awards to purchase an aggregate of 64,687 shares of common stock pursuant to the terms of the 2017 Plan to various eligible individuals. During the said period 16,981 restricted stock awards were forfeited, and 5,467 units were converted into Treasury Stock and a further 53,733 vested and were issued to the holders of these by the Company. During the fiscal year ended October 31, 2022, there were 39,834 Options forfeited. As a result, as of October 31, 2022, there were 230,741 shares available for future issue under the 2017 Plan.

2021 Stock Incentive Plan

On July 12, 2021, the Board of Directors adopted the 2021 Stock Incentive Plan (the "2021 Plan"). The 2021 Plan was approved by the Company's stockholders at its meeting held on August 2, 2021. 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.

During the fiscal year ended October 31, 2021, no grants were made under the 2021 Plan and there were 1,000,000 shares available for future issue under the 2021 Plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the Exchange Act, our directors, our executive officers, and any persons holding more than 10% of our common stock are required to report their ownership of the common stock and any changes in that ownership to the SEC. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain reporting persons that no other reports were required, except as set forth below, we believe that during our fiscal year ended October 31, 2022, no reports relating to our securities required to be filed by current reporting persons were filed late.

We will continue monitoring Section 16 compliance by each of our directors and executive officers and will assist them where possible in their filing obligations.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of January 16, 2023, regarding the beneficial ownership of our Common Stock, based on information provided by (i) each of our executive officers and directors; (ii) all executive officers and directors as a group; and (iii) each person who is known by us to beneficially own more than 5% of the outstanding shares of our Common Stock. The percentage ownership in this table is based on 10,942,353 shares issued and outstanding as of January 16, 2023.

Unless otherwise indicated, we believe that all persons named in the following table have sole voting and investment power with respect to all shares of Common Stock that they beneficially own.

| Name and Address of Beneficial Owner ⁽¹⁾ | Amount and Nature of Beneficial Ownership of Common Stock | Percent of Common Stock |
|---|---|----------------------------|
| Michael Hamilton | 1,143 | * |
| Annamarie Gayle ⁽²⁾ | 2,304,581 | 21.1% |
| Nathan Parker ⁽³⁾ | -0- | n/a |
| Blair Cunningham ⁽⁴⁾ | 52,298 | * |
| Kevin Kane ⁽⁵⁾ | 5,000 | * |
| J. Charles Plumb | 11,434 | * |
| Mary Losty | 57,143 | * |

| | | |
|---|-----------|-------|
| Niels Sondergaard Carit Etlars Vej 17A 8700 Horsens Denmark | 2,241,581 | 20.5% |
| G. Tyler Runnels ⁽⁶⁾ 2049 Century Park East, Suite 320 Los Angeles, CA 90067 | 1,125,685 | 10.3% |
| J. Steven Emerson ⁽⁷⁾ 1522 Ensley Avenue Los Angeles, CA 90024 | 1,168,232 | 10.7% |
| Bryan Ezralow ⁽⁸⁾ 23622 Calabasas Rd. Suite 200 Calabasas, CA 91302 | 1,073,120 | 9.8% |
| Tocqueville Asset Management LP 40 West 57th Street, 19th Floor New York, NY 10019 | 544,003 | 5.0% |
| <i>All Directors and Executive Officers as a Group (Eight persons):</i> | 3,557,284 | 32.5% |

*) Less than 1%.

- 1) Unless otherwise indicated, the address of all individuals and entities listed below is c/o Coda Octopus Group, Inc. 3300 S Hiwassee Rd, Suite 104-105, Orlando, Florida, 32835.
- 2) Consists of 29,667 shares held by Ms. Gayle and 2,241,581 shares beneficially owned by Ms. Gayle's spouse, Niels Sondergaard. Ms. Gayle disclaims any beneficial ownership in those shares. Also includes 33,333 shares issuable upon exercise of options that will become exercisable within 60 days of the date hereof.
- 3) Does not include 9,506 restricted stock units that vest in three equal annual installments commencing on June 13, 2023.
- 4) Includes 25,000 shares issuable upon exercise of currently exercisable options.
- 5) Does not include 10,000 shares issuable upon exercise of restricted stock award units that vest in two equal annual installments commencing on July 6, 2023.
- 6) Includes 859,331 shares held by the G. Tyler Runnels and Jasmine Niklas Runnels TTEES of The Runnels Family Trust DTD 1-11-2000 of which Mr. Runnels is a trustee; 227,700 shares held by T.R. Winston; 24,368 shares held by TRW Capital Growth Fund, Ltd.; and 14,286 shares held by Pangaea Partners. The Company has been advised that Mr. Runnels has voting and dispositive power with respect to all of these shares.
- 7) Includes the following: 167,081 held by J. Steven Emerson IRA R/O II; 300,000 shares held by J. Steven Emerson Roth IRA; 49,328 shares held by the Brian Emerson IRA; 310,928 shares held by Emerson Partners; 180,250 shares held by 1993 Emerson Family Trust; 8,286 shares held by the Alleghany Meadows IRA; 8,286 shares held by the Jill Meadows IRA; and 144,073 shares held by the Emerson family Foundation. The Company has been advised that Mr. Emerson has voting and dispositive power with respect to all of these shares.
- 8) Consists of 896,079 shares held by the Bryan Ezralow 1994 Trust u/t/d 12/22/1994; and 177,041 shares held by EZ MM&B Holdings, LLC. According to filings made with the SEC, Mr. Ezralow has voting and dispositive power with respect to these shares.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

None that are required to be reported herein.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed by Frazier & Deeter, LLC, our principal accountants, for professional services rendered for the audit and audit related services of the Company's annual financial statements for the last two fiscal years and for the reviews of the financial statements included in the Company's Quarterly reports on Form 10-Q during the last two fiscal years 2022 and 2021 were \$390,100 and \$247,118 respectively.

Tax Fees. The Company did not engage its principal accountants to render any tax services to the Company during the last two fiscal years.

All Other Fees. The Company did not engage its principal accountants to render services to the Company during the last two fiscal years, other than as reported above.

Prior to the Company's engagement of its independent auditor, such engagement is approved by the Company's Audit Committee. The services provided under this engagement may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. Pursuant to the Company's Audit Committee Charter, the independent auditors and management are required to report to the Company's audit committee at least quarterly regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The audit committee may also pre-approve particular services on a case-by-case basis. All audit-related fees, tax fees and other fees incurred by the Company for the year ended October 31, 2022, were approved by the Company's audit committee.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

| Exhibit Number | Description |
|----------------|--|
| 2.1 | Plan and Agreement of Merger dated July 12, 2004 by and between Panda and Coda Octopus * |
| 3.1 | Restated Certificate of Incorporation** |
| 3.1.1. | Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock***** |
| 3.2 | By-Laws * |
| 10.25 | Deed of Amendment to Loan Note Transaction Documents dated October 31, 2015 by and between the Company and CCM Holdings LLC*** |
| 10.26 | [Reserved] |
| 10.27 | Employment Contract between Coda Octopus Colmek, Inc. and Mike Midgley**** |
| 10.28 | [Reserved] |
| 10.29 | Employment Contract dated January 1, 2013 between Coda Octopus Products, Inc. and Blair Cunningham***** |
| 10.30 | Deed of Amendment to Loan Note Transaction Documents dated October 17, 2016 by and between the Company and CCM Holdings LLC** |
| 10.31 | Deed of Amendment to Loan Note Transaction Documents dated November 1, 2016 by and between the Company and CCM Holdings LLC***** |
| 10.32 | Employment Contract dated March 16, 2017 between the Company and Anmarie Gayle***** |
| 10.33 | Loan Agreement, dated as of April 28, 2017, by and between Coda Octopus Group, Inc., Coda Octopus Products, Inc., Coda Octopus Colmek, Inc. and HSBC Bank USA, N.A.***** |
| 10.34 | Form of Security Agreement, dated April 28, 2017***** |

10.35 [Promissory Note dated April 28, 2017*****](#)
10.36 [2017 Stock Incentive Plan*****](#)
10.37 [Employment Agreement dated May 7, 2021 between Coda Octopus Colme, Inc and Kevin Kane *****](#)
10.38 [2021 Stock Incentive Plan*****](#)
14 [Code of Ethics*****](#)
23.1 [Consent of Frazier & Deeter, LLC \(filed herewith\)](#)
31.1 [Chief Executive Office and Chief Financial Officer Certification](#)
32 [Certificate Pursuant to 18 U.S.C Section 1350](#)

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 (embedded within the Inline XBRL document)

* Incorporated by reference to the Company's Registration Statement on Form SB-2 (SEC File No.143144)
** Incorporated by reference to the Company's Registration Statement on Form 10.
*** Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended October 31, 2007
**** Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended October 31, 2010
***** Incorporated by reference to the Company's Registration Statement on Form 10/A filed March 29,2017
***** Incorporated by reference to the Company's Current Report on Form 8-K filed May 2, 2017
***** Incorporated by reference to the Company's Annual Report on Form 10 for the year ended October 31, 2017
***** Incorporated by reference to the Company's Definitive Statement filed August 2, 2021
***** Incorporated by reference to the Company's Form 10-K for the year ended October 31, 2021 filed February 14, 2022

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: January 30, 2023

CODA OCTOPUS GROUP, INC.

/s/ Annmarie Gayle
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Annmarie Gayle, his or her true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, severally, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in counterparts.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|------------------|
| <u>/s/ Annmarie Gayle</u> Annmarie Gayle | Chief Executive Officer and Chairman (Principal Executive Officer) | January 30, 2023 |
| <u>/s/ Nathan Parker</u> Nathan Parker | Chief Financial Officer (Principal Financial and Accounting Officer) | January 30, 2023 |
| <u>/s/ Michael Hamilton</u> Michael Hamilton | Director | January 30, 2023 |
| <u>/s/ Captain Charlie Plumb</u> Charlie Plumb | Director | January 30, 2023 |
| <u>/s/ Mary Losty</u> Mary Losty | Director | January 30, 2023 |
| <u>/s/ G. Tyler Runnels</u> | Director | January 30, 2023 |

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CODA OCTOPUS GROUP, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Coda Octopus Group, Inc. and subsidiaries (the "Company") as of October 31, 2022 and 2021, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years ended October 31, 2022 and 2021, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2022 and 2021, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Frazier & Deeter, LLC

We have served as the Company's auditor since 2014.

Tampa, Florida
January 30, 2023
PCAOB ID 215

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

| | 2022 | 2021 |
|-------------------------------------|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 22,927,371 | \$ 17,747,656 |
| Accounts Receivable | 2,870,600 | 4,207,996 |
| Inventory | 10,027,111 | 10,691,177 |
| Unbilled Receivables | 602,115 | 1,080,384 |
| Prepaid Expenses | 240,464 | 1,202,327 |
| Other Current Assets | 343,061 | 627,619 |
| Total Current Assets | 37,010,722 | 35,557,159 |
| FIXED ASSETS | | |
| Property and Equipment, net | 5,832,532 | 6,037,101 |
| OTHER ASSETS | | |
| Goodwill and Other Intangibles, net | 3,824,394 | 3,794,383 |

| | | |
|--------------------|---------------|---------------|
| Deferred Tax Asset | 259,810 | 76,776 |
| Total Other Assets | 4,084,204 | 3,871,159 |
| Total Assets | \$ 46,927,458 | \$ 45,465,419 |

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

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

| | <u>2022</u> | <u>2021</u> |
|--|---------------|---------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 793,247 | \$ 1,454,611 |
| Accrued Expenses and Other Current Liabilities | 1,731,706 | 740,449 |
| Note Payable | - | 63,559 |
| Deferred Revenue | 943,569 | 1,999,841 |
| Total Current Liabilities | 3,468,522 | 4,258,460 |
| LONG TERM LIABILITIES | | |
| Deferred Revenue, less current portion | 76,127 | 157,886 |
| Total Long-Term Liabilities | 76,127 | 157,886 |
| Total Liabilities | 3,544,649 | 4,416,346 |
| STOCKHOLDERS' EQUITY | | |
| Common Stock, \$.001 par value; 150,000,000 shares authorized, 10,916,853 issued and outstanding as of October 31, 2022, and 10,857,195 shares issued and outstanding as of October 31, 2021 | 10,918 | 10,858 |
| Treasury Stock | (28,337) | - |
| Additional Paid-in Capital | 62,313,988 | 61,183,131 |
| Accumulated Other Comprehensive Loss | (4,737,124) | (1,667,059) |
| Accumulated Deficit | (14,176,636) | (18,477,857) |
| Total Stockholders' Equity | 43,382,809 | 41,049,073 |
| Total Liabilities and Stockholders' Equity | \$ 46,927,458 | \$ 45,465,419 |

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

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CODA OCTOPUS GROUP, INC.
Consolidated Statements of Income and Comprehensive Income

| | <u>Year Ended October 31,</u> | |
|---|-------------------------------|------------------|
| | <u>2022</u> | <u>2021</u> |
| Net Revenues | \$ 22,225,803 | \$ 21,331,527 |
| Cost of Revenues | 7,035,115 | 6,561,809 |
| Gross Profit | 15,190,688 | 14,769,718 |
| OPERATING EXPENSES | | |
| Research & Development | 2,237,920 | 2,982,676 |
| Selling, General & Administrative | 7,948,704 | 7,949,525 |
| Total Operating Expenses | 10,186,624 | 10,932,201 |
| INCOME FROM OPERATIONS | 5,004,064 | 3,837,517 |
| OTHER INCOME (EXPENSE) | | |
| Other Income | 137,975 | 1,435,382 |
| Interest Expense | (9,704) | (19,655) |
| Total Other Income | 128,271 | 1,415,727 |
| INCOME BEFORE INCOME TAX EXPENSE | 5,132,335 | 5,253,244 |

| | | |
|---|----------------|--------------|
| INCOME TAX (EXPENSE) BENEFIT | | |
| Current Tax Expense | (1,005,140) | (16,592) |
| Deferred Tax Benefit (Expense) | 174,026 | (288,887) |
| Total Income Tax Expense | (831,114) | (305,479) |
| NET INCOME | \$ 4,301,221 | \$ 4,947,765 |
| NET INCOME PER SHARE: | | |
| Basic | \$ 0.40 | \$ 0.46 |
| Diluted | \$ 0.38 | \$ 0.44 |
| WEIGHTED AVERAGE SHARES: | | |
| Basic | 10,863,674 | 10,804,074 |
| Diluted | 11,281,347 | 11,309,740 |
| NET INCOME | \$ 4,301,221 | \$ 4,947,765 |
| Foreign Currency Translation Adjustment | (3,070,065) | 654,219 |
| Total Other Comprehensive (Loss) Income | \$ (3,070,065) | \$ 654,219 |
| COMPREHENSIVE INCOME | \$ 1,231,156 | \$ 5,601,984 |

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

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CODA OCTOPUS GROUP, INC.
Consolidated Statements of Changes in Stockholders' Equity
For the Year's Ended October 31, 2022 and 2021

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Treasury Stock | 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 | - | - | 830,071 | - | - | - | 830,071 |
| Stock issued for options exercised | 80,314 | 80 | (80) | - | - | - | - |
| Consultant stock based compensation | 25,000 | 25 | 220,725 | - | - | - | 220,750 |
| Foreign currency translation adjustment | - | - | - | 654,219 | - | - | 654,219 |
| Net Income | - | - | - | - | 4,947,765 | - | 4,947,765 |
| Balance, October 31, 2021 | <u>10,857,195</u> | <u>\$ 10,858</u> | <u>\$ 61,183,131</u> | <u>\$ (1,667,059)</u> | <u>\$ (18,477,857)</u> | <u>\$ -</u> | <u>\$ 41,049,073</u> |
| Employee stock based compensation | - | - | 1,130,917 | - | - | - | 1,130,917 |
| Stock issued for options exercised | 59,658 | 60 | (60) | - | - | - | - |
| Foreign currency translation adjustment | - | - | - | (3,070,065) | - | - | (3,070,065) |
| Treasury Stock | - | - | - | - | - | (28,337) | (28,337) |
| Net Income | - | - | - | - | 4,301,221 | - | 4,301,221 |
| Balance, October 31, 2022 | <u>10,916,853</u> | <u>\$ 10,918</u> | <u>\$ 62,313,988</u> | <u>\$ (4,737,124)</u> | <u>\$ (14,176,636)</u> | <u>\$ (28,337)</u> | <u>\$ 43,382,809</u> |

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

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CODA OCTOPUS GROUP, INC.
Consolidated Statements of Cash Flows

| | Year Ended October 31, | |
|---|------------------------|--------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 4,301,221 | \$ 4,947,765 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 738,729 | 924,073 |
| Stock based compensation | 1,130,917 | 1,050,821 |
| Deferred income taxes | (193,083) | 485,126 |
| Funding from Paycheck Protection Program recognized as income | - | (648,872) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 992,948 | (2,193,336) |
| Inventory | (675,878) | (1,063,163) |
| Unbilled receivables | 447,927 | (219,084) |
| Prepaid expenses | 165,010 | (913,123) |
| Other current assets | 275,909 | (383,449) |
| Increase (decrease) in operating liabilities: | | |

| | | |
|---|---------------|---------------|
| Accounts payable and other current liabilities | 533,996 | 326,761 |
| Deferred revenue | (990,729) | 956,251 |
| Net Cash Provided by Operating Activities | 6,726,967 | 3,269,770 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (466,471) | (850,894) |
| Purchases of other intangible assets | (90,089) | (113,310) |
| Net Cash Used in Investing Activities | (556,560) | (964,204) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of notes | (63,559) | (509,549) |
| Proceeds from Paycheck Protection Program | - | 648,872 |
| Purchase of treasury stock | (28,337) | - |
| Net Cash (Used in) Provided by Financing Activities | (91,896) | 139,323 |
| EFFECT OF CURRENCY TRANSLATION ON CHANGES IN CASH | (898,796) | 168,478 |
| NET INCREASE IN CASH | 5,179,715 | 2,613,367 |
| CASH AT THE BEGINNING OF THE YEAR | 17,747,656 | 15,134,289 |
| CASH AT THE END OF THE YEAR | \$ 22,927,371 | \$ 17,747,656 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 9,704 | \$ 19,655 |
| Cash paid for taxes | \$ 74,432 | \$ - |
| SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Purchase of property and equipment previously held in escrow, included in prepaid expenses as of October 31, 2021 | \$ 694,664 | \$ - |

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

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CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2022 and 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 “Engineering Operations”).

The Marine Technology Business sells technology solutions to the subsea and underwater markets. These are designed, developed, manufactured and supported by the Business. Among the solutions it designs and develops, and which currently is its main revenue generating product, is its real time 3D volumetric imaging sonar which is a patented unique and leading product in the subsea/underwater market and marketed under the name Echoscope[®]. It also recently launched a new diver management system (Diver Augmented Vision Display (DAVD)) system addressing the global defense and commercial diving market and which it believes is a significant part of its growth pillars.

The Marine Engineering Business supplies sub-assemblies that it designs primarily as sub-contractors to Prime Defense Contractors for incorporation into broader mission critical defense systems. These design contracts typically progress to manufacturing contracts for these sub-assemblies and are typically supplied for the life of the program to which they pertain.

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

a. Basis of Presentation

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

b. Cash

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

c. Trade Accounts Receivable

Trade accounts receivable are recorded net of the allowance for doubtful accounts. The Company provides for an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Balances still outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. The allowance for doubtful accounts was \$0 for both October 31, 2022, and 2021, respectively.

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NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

d. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for minor replacements, maintenance and repairs which do not increase the useful lives of the property and equipment are charged to operations as incurred. Major additions and improvements are capitalized. Depreciation and amortization are computed using the straight-line method over their estimated useful lives which is typically three to five years for equipment and 50 years for buildings. Our accounting policy regarding our rental assets allocated for rentals by our Products Business is to allocate 70% of depreciation in the period to Cost of Goods Sold.

We own substantially all our facilities and believe that the effect of adopting Accounting Standards Codification 842, “Leases”, has been immaterial.

e. Advertising

Coda follows the policy of charging the costs of advertising to expense as incurred, which aggregated \$0 and \$5,042 for the years ended October 31, 2022 and 2021, respectively.

f. Inventory

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

| | October 31, 2022 | October 31, 2021 |
|-------------------------|----------------------|----------------------|
| Raw materials and parts | \$ 7,219,344 | \$ 7,525,419 |
| Work in progress | 383,427 | 919,619 |
| Finished goods | 2,424,340 | 2,246,139 |
| Total Inventory | <u>\$ 10,027,111</u> | <u>\$ 10,691,177</u> |

g. Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues including unbilled and deferred revenues and expenses during the reporting period. Actual results could differ from those estimates. 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, the valuation of the deferred tax asset, and the valuation of goodwill.

h. Revenue Recognition

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

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

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Revenue Recognition (Continued)

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 the 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.

With regard to 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 provided to the customer 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 and 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.

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

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Revenue Recognition (Continued)

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 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.

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 October 31, 2022 and 2021, we had deferred commissions of \$0 for each year. Amortization expense related to deferred commissions was \$0 and \$3,884 in the years ended October 31, 2022 and 2021, respectively.

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

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Revenue Recognition (Continued)

Other Revenue Disclosures

See Note 13 – Disaggregation of Revenue for 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.

i. Concentrations of Risk

Credit losses, if any, have been provided for in the consolidated financial statements and are based on management's expectations. The Company's accounts receivables are subject to potential concentrations of credit risk, since a significant part of the Company's sales are to a small number of companies and, even though these are generally established businesses, market fluctuations such as the price of oil may affect our customers' ability to meet their obligations to us. Furthermore, Trade disputes may result in impairment or delays in receivables.

The Company's bank deposits are held with financial institutions both in and outside the USA. At times, such amounts may be in excess of applicable government mandated insurance limits. The Company has not experienced any losses in such accounts or lack of access to its cash, and believes it is not exposed to significant risk of loss with respect to cash.

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

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the consolidated balance sheets as Unbilled Receivables of \$602,115 and \$1,080,384 as of October 31, 2022 and 2021, respectively.

Our Deferred Revenue of \$790,458 and \$1,879,790 as of October 31, 2022 and 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.

Revenue received as part of sales of equipment includes a provision for warranty or through life support (TLS) and is treated as deferred revenue, along with extended warranty sales or TLS, which may be purchased by customers. These amounts are amortized over the relevant warranty or TLS period (12 months is our standard warranty or 24, 36 or 60 months for TLS) from the date of sale. These amounts are stated on the consolidated balance sheets as a component of Deferred Revenue and were \$229,238 and \$277,937 as of October 31, 2022 and 2021, respectively.

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

k. Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification 740, *Income Taxes* (ASC 740). Under ASC 740, deferred income tax assets and liabilities are recorded for the income tax effects of differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax reporting. The Company's differences arise principally from the use of various accelerated and modified accelerated cost recovery systems for income tax purposes versus straight line depreciation used for book purposes and from the utilization of net operating loss carry-forwards.

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

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

l. Goodwill and Intangible Assets

Goodwill and 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 intangible assets using the straight-line method over their estimated period of benefit. We periodically evaluate the recoverability of goodwill and intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

Step 1 of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. The Company has adopted Accounting Standards Codification 2017 – 04, simplifying the Test for Goodwill Impairment, which permits the Company to impair the difference between carrying amounts in excess of the fair value of the reporting unit as the reduction in goodwill.

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

l. Goodwill and Intangible Assets (Continued)

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 reporting unit over the fair value of the reporting unit.

There were no impairment charges recognized during the years ended October 31, 2022 and 2021.

m. 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.

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

n. Foreign Currency Translation

Assets and liabilities are translated at the prevailing exchange rates at the balance sheet dates. Related revenues and expenses are translated at weighted average exchange rates in effect during the 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.

For the years ended October 31, 2022 and 2021, the Company recorded an aggregate transaction gain (loss) of \$31,314 and (\$195,341), respectively. The aggregate transaction losses were recorded in SG&A.

o. Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the years ended October 31, 2022 and 2021, respectively.

p. Research and Development

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

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

q. Stock Based Compensation

In accordance with the accounting rules for stock compensation, for time-based awards, the Company is accruing a stock compensation expense and increase to additional paid in capital based on the market value of the common stock as of the grant date throughout the vesting period. The vesting period for the options is 36 months and is based on the employee's continuous service to the Company. In addition, the Company has issued Restricted Stock Awards (RSA) The vesting period is between 6 and 36 months and is based on the employee's/consultant's continued service for the vesting period. Prior to vesting, the awards are subject to forfeiture in the whole or in part under certain circumstances. We use the Black-Scholes option pricing model to determine the fair value for equity instruments granted to employees.

r. Comprehensive Income

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

s. Earnings per Share

We compute basic earnings per share by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding in the reporting period.

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

| Fiscal Period | Year Ended October 31 2022 | Year Ended October 31 2021 |
|---|-------------------------------------|-------------------------------------|
| Numerator: | | |
| Net Income | \$ 4,301,221 | \$ 4,947,765 |
| Denominator: | | |
| Basic weighted average common shares outstanding | 10,863,674 | 10,804,074 |
| Unused portion of options and restricted stock awards | 417,673 | 505,666 |
| Diluted outstanding shares | 11,281,347 | 11,309,740 |
| Net income per share | | |
| Basic | \$ 0.40 | \$ 0.46 |
| Diluted | \$ 0.38 | \$ 0.44 |

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

t. Recent Accounting Pronouncements

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

u. Treasury Stock

Repurchases of Restricted Stock Awards or common stock are classified as treasury stock on our Consolidated Balance Sheet.

We account for treasury stock under the cost method. When treasury stock is re-issued at a price higher than its cost, the difference is recorded as a component of additional paid-in-capital in our Consolidated Balance Sheet. When treasury stock is re-issued at a price lower than its cost, the difference is recorded as a reduction of retained earnings in our Consolidated Balance Sheet.

NOTE 3 – OTHER INCOME

Other Income consisted of the following components:

| | October 31, 2022 | October 31, 2021 |
|--|---------------------|---------------------|
| PPP Loans | \$ - | \$ 648,872 |
| Employee Retention Credits payroll tax credits | 88,917 | 701,568 |
| Other Income | 49,058 | 84,942 |
| Total Other Income, net | \$ 137,975 | \$ 1,435,382 |

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangibles consisted of the following as of:

| | October 31, 2022 | October 31, 2021 |
|--|---------------------|---------------------|
| Customer relationships (weighted average life of 10 years) | \$ 720,592 | \$ 720,592 |
| Non-compete agreements (weighted average life of 3 years) | 198,911 | 198,911 |
| Patents and other (weighted average life of 10 years) | 675,572 | 585,483 |
| Total identifiable intangible assets - gross carrying value | 1,595,075 | 1,504,986 |
| Less: accumulated amortization | (1,152,789) | (1,092,711) |
| Total intangible assets, net | \$ 442,286 | \$ 412,275 |

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

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$60,077 and \$50,379 for the years ended October 31, 2022 and 2021.

Future estimated annual amortization expenses as of October 31, 2022 is as follows:

| Years Ending October 31, | Amount |
|--------------------------|-------------------|
| 2023 | 52,089 |
| 2024 | 42,877 |
| 2025 | 27,533 |
| 2026 | 24,442 |
| Thereafter | 295,345 |
| Totals | \$ 442,286 |

Goodwill consisted of the following as of:

| | October 31, 2022 | October 31, 2021 |
|----------------------------|---------------------|---------------------|
| Coda Octopus Colmek, Inc. | \$ 2,038,669 | \$ 2,038,669 |
| Coda Octopus Products, Ltd | 62,315 | 62,315 |
| Coda Octopus Martech, Ltd | 1,281,124 | 1,281,124 |
| Total Goodwill | \$ 3,382,108 | \$ 3,382,108 |

Considerable management judgment is necessary to estimate the fair value of goodwill. Based on various market factors and projections used by management, actual results could vary significantly from management's estimates.

The Company's policy is to test its goodwill balances for impairment on an annual basis, as of October 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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

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

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

| | October 31, 2022 | October 31, 2021 |
|--|---------------------|---------------------|
| Buildings | \$ 5,419,946 | \$ 5,298,028 |
| Land | 200,000 | 200,000 |
| Office machinery and equipment | 1,556,030 | 1,622,871 |
| Rental assets | 2,252,292 | 2,326,486 |
| Furniture, fixtures and improvements | 1,108,787 | 1,218,217 |
| Totals | 10,537,055 | 10,665,602 |
| Less: accumulated depreciation | (4,704,523) | (4,628,501) |
| Total Property and Equipment, net | \$ 5,832,532 | \$ 6,037,101 |

Depreciation expense for the years ended October 31, 2022 and 2021 was \$678,652 and \$873,694 respectively.

NOTE 6 - OTHER CURRENT ASSETS

Other current assets consisted of the following at:

| | October 31, 2022 | October 31, 2021 |
|---------------------------------------|---------------------|---------------------|
| Deposits | \$ 18,631 | \$ 63,992 |
| Other Tax Receivables | 151,217 | - |
| Employee Retention Credit Receivables | 173,213 | 563,627 |
| Total Other Current Assets | <u>\$ 343,061</u> | <u>\$ 627,619</u> |

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

NOTE 7 – CAPITAL STOCK

Common Stock

During the fiscal year ended October 31, 2021, the Company issued 80,314 shares of common stock for the exercise of 169,332 Options which were issued under the Company's 2017 Plan.

On July 20, 2021, the Company issued 25,000 shares of common stock to consultants for services rendered. These shares had a fair value of \$20,750.

During the fiscal year ended October 31, 2021, the Company granted under its 2017 Plan restricted stock awards to purchase an aggregate of 27,500 shares of common stock pursuant to the terms of the Plan to various eligible individuals. As a result, as of October 31, 2021, there were 238,612 shares available under the 2017 Plan. There were forfeitures of 8,000 and 3,000 options during the years ended October 31, 2021 and 2020, respectively.

During the fiscal year ended October 31, 2022, pursuant to the terms of the 2017 Plan, the Company granted restricted stock awards of 64,687 shares of common stock to various eligible individuals and also issued 53,733 shares of common stock for awards that had vested in the said fiscal year. 16,981 restricted stock grant awards were forfeited, and 5,467 units were converted into Treasury Stock. Further, 5,925 shares of common stock were issued in respect of the exercise of 36,667 Options. As a result, as of October 31, 2022, there were 230,741 shares available under the 2017 Plan.

At the year ended October 31, 2022, there were 1,000,000 shares available under the 2021 Plan.

The following tables presents Options and Restricted Stock Award activities for the years ended October 31, 2022, and 2021 and shows the Company's outstanding obligations for Options and Restricted Stock Awards for the said years.

The intrinsic value of the outstanding options as of October 31, 2022 was \$544,175 and \$1,446,835 for October 31, 2021.

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

NOTE 7 – CAPITAL STOCK (Continued)

| | Stock Options | | | | | |
|--|---------------------|--|-------------------|--|---------------------|--|
| | Total | Weighted Average Exercise Price | Exercisable | Weighted Average Exercise Price | Non-Vested | Weighted Average Exercise Price |
| Outstanding at October 31, 2020 | <u>561,000</u> | \$ 4.65 | <u>-</u> | \$ - | <u>561,000</u> | \$ 4.65 |
| Granted | - | | - | - | - | |
| Vested | - | \$ 4.65 | 185,667 | \$ 4.65 | (185,667) | \$ 4.65 |
| Exercised | (169,332) | \$ 4.65 | (169,332) | \$ 4.65 | - | \$ 4.65 |
| Forfeited or cancelled | <u>(8,000)</u> | \$ 4.65 | <u>-</u> | - | <u>(8,000)</u> | \$ 4.65 |
| Outstanding at October 31, 2021 | <u>383,668</u> | \$ 4.65 | <u>16,335</u> | - | <u>367,333</u> | \$ 4.65 |
| Granted | - | | - | - | - | |
| Vested | - | \$ 4.65 | 183,668 | \$ 4.65 | (183,668) | \$ 4.65 |
| Exercised | (36,667) | \$ 4.65 | (36,667) | \$ 4.65 | - | \$ 4.65 |
| Forfeited or cancelled | <u>(39,834)</u> | \$ 4.65 | <u>(4,333)</u> | - | <u>(35,501)</u> | \$ 4.65 |
| Outstanding at October 31, 2022 | <u>307,167</u> | \$ 4.65 | <u>159,003</u> | \$ 4.65 | <u>148,164</u> | \$ 4.65 |
| Aggregate Intrinsic Value October 31, 2021 | <u>\$ 1,446,835</u> | | <u>\$ 61,746</u> | | <u>\$ 1,385,089</u> | |
| Aggregate Intrinsic Value October 31, 2022 | <u>\$ 544,175</u> | | <u>\$ 281,689</u> | | <u>\$ 262,486</u> | |

The total expense recognized by the Company relating to stock options during the years ended October 31, 2022 and 2021, respectively, was \$11,284 and \$482,595.

Unamortized compensation expense in future years is \$90,831.

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

NOTE 7 – CAPITAL STOCK (Continued)

| | Restricted Stock Awards (“RSA”) | | | | | |
|---------------------------------|---------------------------------|--|-------------|--|----------------|--|
| | Total | Weighted Average Exercise Price | Exercisable | Weighted Average Exercise Price | Non-Vested | Weighted Average Exercise Price |
| Outstanding at October 31, 2020 | - | \$ - | - | \$ - | - | \$ - |
| Granted | 127,500 | \$ 8.80 | - | \$ 8.80 | 127,500 | \$ 8.80 |
| Vested | - | \$ 8.80 | - | \$ 8.80 | - | \$ 8.80 |
| Exercised | - | \$ 8.80 | - | \$ 8.80 | - | \$ 8.80 |
| Treasury Stock | - | \$ 8.80 | - | \$ 8.80 | - | \$ 8.80 |
| Forfeited or cancelled | (5,500) | \$ 8.80 | - | \$ 8.80 | (5,500) | \$ 8.80 |
| Outstanding at October 31, 2021 | <u>122,000</u> | \$ 8.80 | <u>-</u> | \$ 8.80 | <u>122,000</u> | \$ 8.80 |
| Granted | 64,687 | \$ 7.15 | - | \$ 7.15 | 64,687 | \$ 7.15 |
| Vested | (53,733) | \$ 5.05 | - | \$ 5.05 | (53,733) | \$ 5.05 |
| Exercised | - | \$ - | - | \$ - | - | \$ - |
| Treasury Stock | (5,467) | \$ 5.18 | - | \$ 5.18 | (5,467) | \$ 5.18 |
| Forfeited or cancelled | (16,981) | \$ 8.43 | - | \$ 8.43 | (16,981) | \$ 8.43 |
| Outstanding at October 31, 2022 | <u>110,506</u> | \$ 8.10 | <u>-</u> | \$ 8.10 | <u>110,506</u> | \$ 8.10 |

The total expense recognized by the Company relating to restricted stock awards during the year ended October 31, 2022 and 2021 was \$19,633 and \$347,476, respectively. The expense in future years is \$122,306.

All Stock Options and Restricted Stock Awards have been made pursuant to the 2017 Plan.

Total stock compensation expense from issued shares, stock options and restricted stock awards is \$1,130,917.

Preferred Stock

Series A and Series C Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock with a par value of \$0.001 per share. We had previously designated 50,000 preferred shares as Series A preferred stock and 50,000 preferred shares as Series C preferred stock. Both series have since been eliminated and as of October 31, 2022, there were no shares of Preferred Stock issued or outstanding.

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

NOTE 8 - INCOME TAXES

The Company provides for income taxes and the related accounts under the asset and liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect during the year in which the basis differences reverse. Valuation allowances are established when management determines it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

The provision (benefit) for income taxes comprises:

| | October 31, 2022 | October 31, 2021 |
|------------------------------------|---------------------|---------------------|
| Current federal expense | \$ 849,580 | \$ (25,429) |
| Current state income tax expense | 159,900 | - |
| Foreign tax (benefit) expense | (4,340) | 42,021 |
| Total current tax expense | 1,005,140 | 16,592 |
| Deferred federal (benefit) expense | (174,026) | 288,887 |
| Deferred Tax (Benefit) Expense | (174,026) | 288,887 |
| Total Income Tax Expense | <u>\$ 831,114</u> | <u>\$ 305,479</u> |

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CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2021 and 2020

NOTE 8 - INCOME TAXES (Continued)

The expense for income taxes differed from the U.S. statutory rate due to the following:

| | October 31, 2022 | October 31, 2021 |
|-------------------------------|---------------------|---------------------|
| Statutory tax rate | 21.0% | 21.0% |
| R&D Relief | (10.6)% | (18.4)% |
| Change in valuation allowance | 3.7% | 0.0% |
| Foreign tax (benefit) expense | (0.9)% | 3.2% |
| State Income Tax | 3.0% | 0.0% |
| Total | 16.2% | 5.8% |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows:

| | October 31, 2022 | October 31, 2021 |
|--------------------------------|---------------------|---------------------|
| Noncurrent deferred tax assets | | |
| Temporary differences | | |
| U.S. NOL carryforwards | \$ - | \$ 15,930 |
| Deferred Revenue | 4,830 | - |
| Restricted Stock Awards | 272,841 | 72,970 |
| Book/Tax Depreciation | (17,861) | (12,124) |
| Foreign fixed assets | (84,381) | 18,168 |
| Foreign NOL carryforwards | 409,100 | 148,650 |
| Total | 584,529 | 243,594 |
| Valuation allowance | (324,719) | (166,818) |
| Total Deferred Asset | \$ 259,810 | \$ 76,776 |

As of October 31, 2022, we had no remaining U.S. federal net operating loss (NOL) carryforwards.

The Company has filed tax returns for federal, state, and foreign jurisdictions. The Company's evaluation of uncertain tax matters was performed for the tax years ended October 31, 2022, and 2021. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes and continues to reflect interest and penalties attributable to income taxes, to extent they arise, as a component of its income tax provision or benefit as well as its outstanding income tax assets and liabilities. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments to result in a material change to its financial position.

The Company's UK Operations, under the applicable UK tax rules, have certain trading losses (referred to in this disclosure as "NOL carryforwards"). Under the applicable UK tax rules, any trading tax losses incurred from 2017 up to and including the current fiscal year can be surrendered for group relief to offset or reduce current year profits and tax liability in any of our UK Operations. Any tax losses before 2017 in a UK entity can only be used in the entity to which it pertains. The tax losses are available indefinitely unless the nature of the business with the trading loss benefit changes substantially. Under UK tax rules, the UK entities are also eligible for R&D Tax Credit. The UK Products Business in any one FY performs significant R&D work due to the nature of its business (researching and developing products and solutions). In the 2022 FY, we were eligible to deduct £2,246,251 (an equivalent of USD \$2,819,389,) as R&D tax expenses from our taxable income, thus negating any tax liability of the UK Operations in the Current FY. Our UK Operations have \$ 1.3m in NOL carryforwards, \$0.48m of which can be used by the UK entity in which the trading loss was created and \$0.82M can be used by any or all UK entities. This applies indefinitely unless the business activities undertaken change substantially.

A valuation allowance is required for deferred tax assets, if based on available evidence, it is more likely than not that all or some portion of the asset will not be realized due to the inability to generate sufficient taxable income in the future. The deferred tax losses refer to timing of asset allowance in the UK. As we are generally able to offset most taxes with brought forward trading losses, R&D tax credit to offset profits expected to be ongoing and ability to utilize such reliefs within between entities then we do not foresee being able to utilize those deferred tax assets in the near future.

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

NOTE 9 - NOTE PAYABLE

Note payable consisted of the following at:

| October 31, 2022 | October 31, 2021 |
|---------------------|---------------------|
|---------------------|---------------------|

Secured note payable to HSBC NA with interest payable on the 28th day of each month at 4.56% per annum. Monthly repayment obligation under this loan was \$43,777 (comprising both principal and interest repayment). The Loan reached maturity and was repaid in full in December 2021.

| | | | | |
|------------------------------|----|---|----|----------|
| | \$ | - | \$ | 63,559 |
| Total | | - | | 63,559 |
| Less: current portion | | - | | (63,559) |
| Total Long Term Note Payable | \$ | - | \$ | - |

The HSBC Loan was repaid in full in December 2021.

The Company entered into a \$4,000,000 revolving line of credit facility with HSBC NA on November 27, 2019, with the interest rate established as the applicable prime rate. This revolving line of credit facility is subject to annual renewal and has been extended to November 2023. We have not utilized this line of credit and the outstanding balance on the line of credit was \$0 as of October 31, 2022 and 2021.

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

NOTE 10 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) consists of foreign currency translation adjustments. Total other comprehensive income (loss) was \$(3,070,065) and \$654,219 for the years ended October 31, 2022 and 2021, respectively.

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

| | October 31, 2022 | October 31, 2021 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ (1,667,059) | \$ (2,321,278) |
| Total other comprehensive income (loss) for the year - foreign currency translation adjustment | (3,070,065) | 654,219 |
| Balance, end of year | \$ (4,737,124) | \$ (1,667,059) |

NOTE 11 – CONCENTRATIONS

Significant Customers

During the year ended October 31, 2022, the Company had no customers from whom it generated sales greater than 10% of net revenues.

During the year ended October 31, 2021, the Company had one customer from whom it generated sales greater than 10% of net revenues. Revenue from this customer was \$2,484,173, or 12% of net revenues during the period. Total accounts receivable from this customer as of October 31, 2021 was \$68,149 or 11% of accounts receivable.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Company's U.S. subsidiaries maintain a 401(k)-retirement plan. The plan allows the Company to make matching contributions of 4% of employee compensation, subject to IRS contribution limits. U.S. employees who have at least six months of service with the Company are eligible. In addition, the Company's UK subsidiaries operate statutory pension schemes which provide for the payment of certain contribution by the Company and the Employee. These schemes in the UK operate on a defined contribution money purchase basis and the contributions are charged to operations as they arise. Finally, the Company is obligated to provide pension funding according to the laws in which it operates including in both Denmark and Australia. The Company has an arrangement that fulfills this requirement. Employee benefit costs for the years ended October 31, 2022 and 2021 were \$138,260 and \$123,215, respectively.

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

NOTE 13 -SEGMENT ANALYSIS

Based on the fundamental difference in the types of offering products 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, 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.

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

The following table summarizes segment asset and operating balances by reportable segment as of and for the years ended October 31, 2022 and 2021, respectively.

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

- Americas
- Europe
- Australia/Asia

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

NOTE 13 -SEGMENT ANALYSIS (Continued)

| | <u>Marine Technology Business (Products)</u> | <u>Marine Engineering Business (Services)</u> | <u>Overhead</u> | <u>Total</u> |
|--|--|---|-----------------------|---------------------|
| Year Ended October 31, 2022 | | | | |
| Net Revenues | \$ 14,724,688 | \$ 7,501,115 | \$ - | \$ 22,225,803 |
| Cost of Revenues | <u>2,941,569</u> | <u>4,093,546</u> | <u>-</u> | <u>7,035,115</u> |
| Gross Profit | 11,783,119 | 3,407,569 | - | 15,190,688 |
| Research & Development | 2,207,500 | 30,420 | - | 2,237,920 |
| Selling, General & Administrative | <u>2,563,554</u> | <u>2,654,565</u> | <u>2,730,585</u> | <u>7,948,704</u> |
| Total Operating Expenses | 4,771,054 | 2,684,985 | 2,730,585 | 10,186,624 |
| Income (Loss) from Operations | 7,012,065 | 722,584 | (2,730,585) | 5,004,064 |
| Other Income (Expense) | | | | |
| Other Income | 55,715 | 79,204 | 3,056 | 137,975 |
| Interest Expense | <u>(9,233)</u> | <u>(71)</u> | <u>(400)</u> | <u>(9,704)</u> |
| Total Other Income | <u>46,482</u> | <u>79,133</u> | <u>2,656</u> | <u>128,271</u> |
| Income (Loss) before Income Taxes | 7,058,547 | 801,717 | (2,727,929) | 5,132,335 |
| Income Tax (Expense) Benefit | | | | |
| Current Tax (Expense) Benefit | (868,162) | 39,422 | (176,400) | (1,005,140) |
| Deferred Tax Benefit (Expense) | <u>31,907</u> | <u>(41,657)</u> | <u>183,776</u> | <u>174,026</u> |
| Total Income Tax (Expense) Benefit | <u>(836,255)</u> | <u>(2,235)</u> | <u>7,376</u> | <u>(831,114)</u> |
| Net Income (Loss) | <u>\$ 6,222,292</u> | <u>\$ 799,482</u> | <u>\$ (2,720,553)</u> | <u>\$ 4,301,221</u> |
| Supplemental Disclosures | | | | |
| Total Assets | \$ 33,348,805 | \$ 12,662,109 | \$ 916,544 | \$ 46,927,458 |
| Total Liabilities | \$ 2,432,750 | \$ 526,195 | \$ 585,704 | \$ 3,544,649 |
| Revenues from Intercompany Sales - eliminated from sales above | \$ 2,406,717 | \$ 396,015 | \$ 2,720,000 | \$ 5,522,732 |
| Depreciation and Amortization | \$ 602,583 | \$ 96,776 | \$ 39,370 | \$ 738,729 |
| Purchases of Long-lived Assets | \$ 1,123,475 | \$ 36,862 | \$ 90,887 | \$ 1,251,224 |

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

NOTE 13 -SEGMENT ANALYSIS (Continued)

| | <u>Marine Technology Business (Products)</u> | <u>Marine Engineering Business (Services)</u> | <u>Overhead</u> | <u>Total</u> |
|------------------------------------|--|---|-----------------|------------------|
| Year Ended October 31, 2021 | | | | |
| Net Revenues | \$ 15,804,222 | \$ 5,527,305 | \$ - | \$ 21,331,527 |
| Cost of Revenues | <u>3,169,835</u> | <u>3,391,974</u> | <u>-</u> | <u>6,561,809</u> |
| Gross Profit | 12,634,387 | 2,135,331 | - | 14,769,718 |
| Research & Development | 2,509,107 | 473,569 | - | 2,982,676 |

| | | | | |
|--|---------------------|-------------------|-----------------------|---------------------|
| Selling, General & Administrative | 3,231,733 | 2,304,300 | 2,413,492 | 7,949,525 |
| Total Operating Expenses | 5,740,840 | 2,777,869 | 2,413,492 | 10,932,201 |
| Income (Loss) from Operations | 6,893,547 | (642,538) | (2,413,492) | 3,837,517 |
| Other Income (Expense) | | | | |
| Other Income | 354,373 | 1,079,374 | 1,635 | 1,435,382 |
| Interest Expense | (1,738) | (365) | (17,552) | (19,655) |
| Total Other Income (Expense) | 352,635 | 1,079,009 | (15,917) | 1,415,727 |
| Income (Loss) before Income Taxes | 7,246,182 | 436,471 | (2,429,409) | 5,253,244 |
| Income Tax (Expense) Benefit | | | | |
| Current Tax Benefit (Expense) | 35,032 | (51,624) | - | (16,592) |
| Deferred Tax (Expense) Benefit | (418,338) | 409,205 | (279,754) | (288,887) |
| Total Income Tax (Expense) Benefit | (383,306) | 357,581 | (279,754) | (305,479) |
| Net Income (Loss) | \$ 6,862,876 | \$ 794,052 | \$ (2,709,163) | \$ 4,947,765 |
| Supplemental Disclosures | | | | |
| Total Assets | \$ 30,631,442 | \$ 14,117,747 | \$ 716,230 | \$ 45,465,419 |
| Total Liabilities | \$ 3,166,999 | \$ 849,306 | \$ 400,041 | \$ 4,416,346 |
| Revenues from Intercompany Sales - eliminated from sales above | \$ 2,075,387 | \$ 355,608 | \$ 3,470,000 | \$ 5,900,995 |
| Depreciation and Amortization | \$ 780,434 | \$ 114,022 | \$ 29,617 | \$ 924,073 |
| Purchases of Long-lived Assets | \$ 793,995 | \$ 51,907 | \$ 118,302 | \$ 964,204 |

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

NOTE 14 - DISAGGREGATION OF REVENUE

| | For the Year Ended October 31, 2022 | | |
|--------------------------------------|-------------------------------------|-----------------------------------|----------------------|
| | Marine Technology Business | Marine Engineering Business | Grand Total |
| Disaggregation of Total Net Sales | | | |
| Revenues | | | |
| Primary Geographical Markets | | | |
| Americas | \$ 5,668,948 | \$ 4,566,349 | \$ 10,235,297 |
| Europe | 1,559,778 | 2,900,906 | 4,460,684 |
| Australia/Asia | 5,723,970 | - | 5,723,970 |
| Middle East/Africa | 1,771,992 | 33,860 | 1,805,852 |
| Total Revenues | \$ 14,724,688 | \$ 7,501,115 | \$ 22,225,803 |
| Major Goods/Service Lines | | | |
| Equipment Sales | \$ 8,771,050 | \$ 1,544,002 | \$ 10,315,052 |
| Equipment Rentals | 1,844,775 | - | 1,844,775 |
| Software Sales | 1,014,867 | - | 1,014,867 |
| Engineering Parts | - | 3,530,407 | 3,530,407 |
| Services | 3,093,996 | 2,426,706 | 5,520,702 |
| Total Revenues | \$ 14,724,688 | \$ 7,501,115 | \$ 22,225,803 |
| Goods transferred at a point in time | \$ 9,785,917 | \$ 1,562,799 | \$ 11,348,716 |
| Services transferred over time | 4,938,771 | 5,938,316 | 10,877,087 |
| Total Revenues | \$ 14,724,688 | \$ 7,501,115 | \$ 22,225,803 |

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

| | For the Year Ended October 31, 2021 | | |
|--|-------------------------------------|-----------------------------------|----------------------|
| | Marine Technology Business | Marine Engineering Business | Grand Total |
| Disaggregation of Total Net Sales | | | |
| Revenues | | | |
| Primary Geographical Markets | | | |
| Americas | \$ 3,434,552 | \$ 2,188,812 | \$ 5,623,364 |
| Europe | 5,623,227 | 3,338,493 | 8,961,720 |
| Australia/Asia | 5,867,710 | - | 5,867,710 |
| Middle East/Africa | 878,733 | - | 878,733 |
| Total Revenues | \$ 15,804,222 | \$ 5,527,305 | \$ 21,331,527 |
| Major Goods/Service Lines | | | |
| Equipment Sales | \$ 10,914,124 | \$ 1,421,614 | \$ 12,335,738 |
| Equipment Rentals | 2,324,773 | - | 2,324,773 |
| Software Sales | 669,968 | - | 669,968 |
| Engineering Parts | - | 3,239,866 | 3,239,866 |
| Services | 1,895,357 | 865,825 | 2,761,182 |
| Total Revenues | \$ 15,804,222 | \$ 5,527,305 | \$ 21,331,527 |
| Goods transferred at a point in time | \$ 11,588,099 | \$ 1,421,614 | \$ 13,009,713 |
| Services transferred over time | 4,216,123 | 4,105,691 | 8,321,814 |
| Total Revenues | \$ 15,804,222 | \$ 5,527,305 | \$ 21,331,527 |

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

Annamarie Gayle

Pursuant to the terms of an employment agreement dated March 16, 2017, the Company employs Ms. Gayle as its Chief Executive Officer on a full-time basis and a member of its Board of Directors. With effect from July 1, 2019, Ms. Gayle's annual salary was increased from \$230,000 to \$305,000 payable on a monthly basis. Ms. Gayle is also entitled to an annual performance bonus of up to \$100,000, upon achieving certain targets that are to be defined on an annual basis. The agreement provides for 30 days of paid holidays in addition to public holidays observed in Scotland.

The agreement has no definitive term and may be terminated only upon twelve months' prior written notice by Ms. Gayle. In the event that the Company terminates her at any time without cause, she is entitled to a payment equal to her annual salary as well as a separation bonus of \$150,000. The Company may terminate the agreement for cause, immediately and without notice. Among others, "for cause" includes gross misconduct, a serious or repeated breach of the agreement and negligence and incompetence as reasonably determined by the Company's Board. The agreement includes a 12-month non-compete and non-solicitation provision.

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreements (Continued)

Blair Cunningham

Under the terms of an employment contract dated January 1, 2013, our wholly owned subsidiary Coda Octopus Products, Inc. employs Blair Cunningham as its Chief Executive Officer and President of Technology. He is being paid an annual base salary of \$200,000 with effect from January 1, 2020, subject to review by the Company's Chief Executive Officer. Mr. Cunningham's annual based salary was revised and is currently \$225,000. He is entitled to 25 vacation days in addition to any public holiday.

The agreement may be terminated only upon twelve-month prior written notice without cause. The Company may terminate the agreement for cause, immediately and without notice. Among others, "for cause" includes gross misconduct, a serious or repeated breach of the agreement and negligence and incompetence as reasonably determined by the Company's Board. The agreement includes an 18-month non-compete and non-solicitation provision.

Kevin Kane

Pursuant to the terms of an Employment Agreement dated May 7, 2021, as amended and modified, Kevin Kane was appointed the Chief Executive Officer of Colmek commencing July 6, 2021. The Employment Agreement provides for an annual base salary of \$200,000. He will also be eligible for an annual performance bonus based on the Company's financial performance. Subject to certain performance milestone during the current fiscal year, Mr. Kane will be paid a performance bonus of \$12,000. As a further inducement, he was granted 15,000 restricted stock units out of the Company's 2017 Stock Incentive Plan that vest in three equal annual instalments commencing on the first

anniversary of grant.

The agreement may be terminated by the Company at any time. In the event that the Company terminates the employment agreement for whatever reason, the following severance payments apply:

| | |
|----------------------|----------|
| Year 1 of employment | 2 Weeks |
| Year 2 of employment | 1 Month |
| Year 3 of employment | 4 Months |

The agreement includes a 12-month non-compete and non-solicitation provision.

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CODA OCTOPUS GROUP, INC.
Notes to the Consolidated Financial Statements
October 31, 2021 and 2020

NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

Michael Midgley (retired in June 2022)

Pursuant to the terms of an employment agreement dated June 1, 2011, Mike Midgley was appointed the Chief Executive Officer of our wholly owned subsidiary Coda Octopus Colmek, Inc. and our Chief Financial Officer. He is being paid an annual salary of \$210,000 subject to an annual review by Colmek's Board of Directors and the Company's Chief Executive Officer. Mr. Midgley is entitled to 20 vacation days in addition to any public holiday.

Amendment to Michael Midgley's Employment Agreement

The Company and Mr. Midgely entered into an agreement for the Amendment of his Employment Agreement on February 15, 2021.

The following amendments were made:

| | |
|--------------------|---|
| Role | Chief Financial Officer of the Company. Removing the position of Divisional CEO of Coda Octopus Colmek. |
| Reduction in hours | Working hours reduced to approximately 60% and his compensation reduced proportionally to \$126,000. |
| Paid Time Off | Reduced proportionately and is now 12 days |
| Benefits | Reduced proportionately |

The agreement may be terminated at any time upon 4 months prior written notice. The Company may terminate the agreement for cause, immediately and without notice. Among others, "for cause" includes gross misconduct, a serious or repeated breach of the agreement and negligence and incompetence as reasonably determined by the Company's Board. The agreement includes a 12-month non-compete and non-solicitation provision.

Mr. Midgley retired from the company effective June 30, 2022.

Nathan Parker

Pursuant to the terms of an Employment Agreement dated May 10, 2022, Nathan Parker was appointed our Chief Financial Officer commencing June 6, 2022. The Employment Agreement provides for an annual base salary of \$230,000. As a further inducement, he was granted 9,506 restricted stock units out of the Company's 2017 Stock Incentive Plan that vest in three equal annual instalments commencing on the first anniversary of grant. Mr. Parker also received a signing bonus of \$20,000. Mr. Parker is entitled to 20 vacation days in addition to any public holiday.

The Company may terminate the agreement at any time. In the event that the Company terminates the employment agreement for whatever reason, the following severance payments apply:

| | |
|----------------------|----------------------|
| Year 1 of employment | 1 Month Base Salary |
| Year 2 of employment | 3 Months Base Salary |
| Year 3 of employment | 6 Months Base Salary |

The agreement includes a 12-month non-compete and non-solicitation provision.

Litigation

From time to time, we may be a party to or be involved with legal proceedings, governmental investigations or inquires, claims or litigation that are related to our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business or its financial condition.

NOTE 16 – PAYROLL PROTECTION PROGRAM

In the year ended October 31, 2021, two of our US companies, received \$48,872 under the second round of the US Government Payroll Protection Program ("Second Round PPP") for payroll assistance during the Pandemic. The proceeds from the Second Round PPP have been used to pay US employees' salaries during this period. In the year ended October 31, 2021, the Company utilized all the \$48,872 of the Second Round PPP to retain employees. These loans were forgiven on June 14 and 22, 2021. This amount is recorded in our 2021 FY accounts as "Other Income". No amounts were received in the 2022 FY under the PPP.

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

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events occurring through the date that the financial statements were issued, for events requiring, recording or disclosure in the October 31, 2022, consolidated financial statements and there were no subsequent events to report.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-224408; No. 333-233524; and No. 333-236029) and Form S-8 (No. 333-227704 and No. 333-260244) of Coda Octopus Group, Inc. of our report dated January 30, 2023, with respect to the consolidated financial statements as of and for the years ended October 31, 2022 and 2021, of Coda Octopus Group, Inc. which are part of this Annual Report on Form 10-K.

/s/ Frazier & Deeter, LLC

Frazier & Deeter, LLC
Tampa, Florida
January 30, 2023

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION

I, Annmarie Gayle and Nathan Parker, certify that:

1. We have reviewed this annual report on Form 10-K of Coda Octopus Group, Inc.:
2. Based on our 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 our 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(s) and we 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(s) and we 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: January 30, 2023

/s/ Annmarie Gayle

Date: January 30, 2023

/s/ Nathan Parker

**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 annual report of Coda Octopus Group, Inc. (the "Company") on Form 10-K for the year ended October 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Annmarie Gayle, Chief Executive Officer, and I, Nathan Parker, Chief Financial Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

/s/ Annmarie Gayle
Chief Executive Officer

/s/ Nathan Parker
Chief Financial Officer

Date: January 30, 2023

Date: January 30, 2023
