Coda Octopus Group, Inc.

Annual Report

November 1, 2014–October 31, 2015

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Symbol: CDOC
SIC Code: 3812-Search, Detection, Navigation, Guidance, Aeronautical and Nautical Systems and Instruments
Fiscal Year: 10/31

February 25, 2016

OUR GROUP



Coda Octopus Group, Inc.

Coda Octopus
Sound Underwater Intelligence

COLMEK
A Coda Octopus Company

Martech
a Coda Octopus company

Forward-Looking Statements

This report contains statements that do not relate to historical or current facts, but are "forward looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- customer demand for our products and market prices;
- general economic conditions;
- our reliance on a few customers for substantially all of our sales;
- the intensity of competition;
- our ability to collect outstanding receivables;
- the amount of liquidity available at reasonable rates or at all for ongoing capital needs;
- our ability to raise additional capital if necessary to execute our business plan;
- our ability to attract and retain management, and to integrate and maintain technical information and management information systems;
- the outcome of legal proceedings affecting our business; and
- our insurance coverage being adequate to cover the potential risks and liabilities faced by our business.

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See the section entitled "Risk Factors", contained herein for a discussion of these and other risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances, except as required by law.

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

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

Its predecessor is The Panda Project, Inc.

Item 2: The address of the issuer's principal executive offices

The address of the issuer's principal executive office contact is:

4020 Kidron Road
Suite #4
Lakeland
Florida 33811
Phone: + 1 801 973 9136
Fax: + 1 801 973 9285
Email: info@codaoctopusgroup.com

Item 3: Security Information.

Trading symbol: CDOC

Securities outstanding: Common Stock and Series C Preferred Stock.

CUSIP: 19188U 10 7

Par or Stated Value. Provide the par or stated value for each class of outstanding securities.

The Par value of Common Stock is $.001 per share

The Par value of Preferred Stock Series C is $.001 per share

The name and address of our transfer agent is:

Olde Monmouth Stock Transfer Co., Inc.
200 Memorial Parkway
Atlantic Highlands
New Jersey 07716
Phone: +1 732 872-2727
Fax: +1 732 872-2728
www.oldemonmouth.com

Our transfer agent is registered under the Securities Exchange Act 1934.

The number of shares or total amount of the securities outstanding for each class of securities authorized.

In answering this item, provide the information below for each class of securities authorized.

Please provide this information (i) as of the end of the issuer's most recent fiscal quarter and (ii) as of the end of the issuer's last two fiscal years.

Common Stock

(i) Period end date:	**October 31,2015**	**October 31,2014**	**October 31, 2013**
(ii) Number of shares authorized;	150,000,000	150,000,000	150,000,000
(iii) Number of shares outstanding;	94,019,213	93,919,213	93,776,356
(iv) Freely tradable shares (public float);	39,935,510	36,022,482	36,047,482
(v) Total number of shareholders of record	286	288	293

Series A Preferred Stock

(i) Period end date:	**October 31, 2015**	**October 31, 2014**	**October 31, 2013**
(ii) Number of shares authorized	5,000,000	5,000,000	5,000,000
(iii) Number of shares outstanding (See Note 6 to Financials)	200	6,287	6,287
(iv) Freely tradable shares (public float)	-0-	-0-	-0-
(v) Total number of beneficial shareholders	1	4	5
(vi) Total number of shareholders of record	1	4	5

Series C Preferred Stock

(i) Period end date:	October 31, 2015	October 31, 2014	October 31, 2013
(ii) Number of shares authorized	5,000,000	-0-	-0-
(iii) Number of shares outstanding (See Note 6 to Financials)	1,100	None	None
(iv) Freely tradable shares (public float)	-0-	-0-	-0-
(v) Total number of beneficial shareholders	1	-0-	-0-
(vi) Total number of shareholders of record	1	-0-	-0-

As of February 25, 2016, the Company had issued and outstanding 94,019,213 shares of common stock and 1,100 shares of Series C preferred stock.

Item 4: Issuance History

On July 24, 2014 the Company issued 142,857 shares of common stock to Core Fund LLP in return for the surrender of warrants to purchase shares of common stock of the Company. These warrants were issued to Core Fund in a financing transaction completed in May 2007. The warrants should have been exchanged for shares in October 2010 as part of the Company's restructuring efforts. As a result of administrative oversight, these shares were not issued until July 2014.

On June 30, 2015 the Company and the Holder of 6,087 shares of Series A Preferred Stock entered into an Exchange Agreement. Under the terms of the Exchange Agreement, 6,087 Series A Preferred Stock (which provided for dividends and voting rights) were cancelled and the Company issued 1,100 shares of Series C Preferred Stock with a stated value of $1,000 each. The new Series C Preferred Stock neither attracts dividends nor has any voting rights attached. Series C Preferred Stock is convertible by the Holder or the Company subject to the Conversion Conditions being met and, if not converted, are redeemable at a fixed price of $1,100,000 on or before 31 December 2016.

On October 26, 2015 the Company issued 100,000 shares of common stock to one of its Directors, Mr. Robert Ethrington, in accordance with the terms of his appointment which provided for these to be issued subject to serving at least one year on the Company's Board.

All securities were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 4(2) thereunder (except as specifically set forth above), as they

were issued in reliance on the recipients' representation that they were accredited (as such term is defined in Regulation D), without general solicitation and represented by certificates that were imprinted with a restrictive legend. In addition, all recipients were provided with sufficient access to Company information. Similar restrictions and conditions also apply to the non-freely transferable shares that were issued prior to the last two financial years.

Item 5: Financial statements.

Audited financial statements for Coda Octopus Group, Inc. for the financial year ended October 31, 2015 are included in this Annual Report on pages 50 through to 78. The following audited financial statements are included herein:

1.	Consolidated balance sheets as of October 31, 2015 and 2014
2.	Consolidated statements of income and comprehensive income for the years ended October 31, 2015 and 2014
3.	Consolidated statement of changes in stockholders' equity for the years ended October 31, 2015 and 2014
4.	Consolidated statements of cash flows for the years ended October 31, 2015 and 2014
5.	Notes to consolidated financial statements for the years ended October 31, 2015 and 2014

The audited consolidated financial statements include the accounts of Coda Octopus Group, Inc., and our domestic and foreign subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the audited consolidated financials and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

Management discussion and analysis of financial condition and results of operations

A. Background

Coda Octopus Group, Inc. and its subsidiaries are experts in sub-sea marine technology. We are also involved in marine and defense engineering provided through two of our wholly owned subsidiaries.

The following brief overview highlights some of the major issues that currently impact the Company's business.

i. The Group's business is subject to influence a number of factors including:

   a. the price of commodities, in particular oil and gas which affects oil and gas companies' and their suppliers' ability to purchase technology such as that sold by the Products Segment (Marine Technology Business);
   b. the allocation of funds to defense procurement by governments in the USA and UK;
   c. competitiveness of the export environment;
   d. volatility of the markets including currency market; and
   e. the general global economic environment;

ii. The Group has limited external sources of liquidity available, and as such is reliant upon its ability to sell its products and services to finance its operations and service its debt obligations. The Group has limited overdraft facilities from its bankers. However, we cannot guarantee that these facilities will continue to be available.

B. Results of Operations

Throughout this discussion all references to "the 2014 period" means the period 1 November 2013 through to and including 31 October 2014 (i.e. year ending October 31, 2014). Similarly all references to "the 2015 period" means the period 1 November 2014 through to and including October 31 2015 (i.e. year ending October 31, 2015).

Coda Octopus Group is comprised primarily of two business segments: the Marine Technology Business which is our products business ("Products Segment or Business") and the Marine Engineering Business, which is our service business ("Services Segment or Business").

Our Marine Technology Business sells its products and associated services to the oil and gas sector, offshore wind energy, dredging and marine construction, marine and port security, and marine sciences sector. This segment generated approximately 51% and 57% of our total revenues for the fiscal years ended October 31, 2015 and 2014, respectively. The decline of revenues from our Product Segment is due to the decline in operational and capital expenditures budgets in the Oil & Gas Industry in the 2015 period. To the extent that these conditions persist, we would anticipate our revenues from the segment to be adversely impacted in the 2016 period. We expect to mitigate some of this impact by pursuing opportunities in the marine construction market, where our solution (our real time 3D sonar with customized software for this sector) is one of two solutions in the world for building breakwaters.

Our Marine Engineering Business largely sells its services into prime and sub-prime defense contractors. This segment generated approximately 49% and 43% of our total revenues for the fiscal years ended October 31, 2015 and 2014, respectively. Our subsidiary, Coda Octopus Colmek, Inc. continues to expand its operations and the programs under which it supplies proprietary parts to recognized defense programs.

During the fiscal year ended October 31, 2015 our total revenues have increased by 16.9%. This increase is largely due to increase of sales made by our Services Segment.

Our overall operating and net income declined by 42% and 36%, respectively. This is largely due to the following factors below:

- During the fiscal year ended October 31, 2015 our Selling, General and Administrative Expenses ("SGA") increased by 29.0% over the previous 2014 period. This increase is largely due to exceptional and non-recurring expenditures incurred during the 2015 period. These have included:

    - Exceptional Legal Costs of $1.1M associated with the litigation and restructuring of Series A Preferred Stock.

    - Exceptional Costs of circa $240,000 incurred in connection with the move of the Marine Technology Production Capability from Bergen/Norway to Edinburgh.

- The mix of sales was significantly different from the previous year for the same period. The Marine Business generated 57% of our total revenues in the 2014 period compared to 51% of our total revenues in the 2015 period. The Marine Engineering Business generated 49% of our revenues in the 2015 period compared to 43% in the 2014 period. Overall this mix of sales has reduced our gross profit margins and impacted on our Net Income.

The Segment analysis immediately below gives more information on performance of each segment.

Segment Analysis

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

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 statement. However for the purpose of segment reporting, these 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, 2015 and 2014, respectively.

	Marine Technology Business (Products)	Marine Engineering Business (Services)	Overhead	Total
Fiscal Year 2015				
Revenues from External Customers	$ 9,772,151	$ 9,462,245	$ -	$ 19,234,396
Cost of Revenues	3,647,422	5,246,447	-	8,893,869
Gross Profit	6,124,729	4,215,798	-	10,340,527
Research & Development	998,270	-	-	998,270
Selling, General & Administrative	3,856,809	2,877,601	748,328	7,482,738
Operating Income (Loss)	1,269,650	1,338,197	(748,328)	1,859,519
Other Income (Expense)				
Other Income	358,609	117	82	358,808
Interest Expense	(503,909)	(285,319)	(255,678)	(1,044,906)
Unrealized loss on sale of investment in marketable securities	-	-	(3,031)	(3,031)
Total other income (expense)	(145,300)	(285,202)	(258,627)	(689,129)
Income (Loss) before income taxes	1,124,350	1,052,995	(1,006,955)	1,170,390
Income tax refund (expense)	(76,051)	(24,047)	-	(100,098)
Net Income (Loss)	$ 1,048,299	$ 1,028,948	$ (1,006,955)	$ 1,070,292
Supplemental Disclosures				
Total Assets	$ 11,674,637	$ 10,072,824	$ 132,770	$ 21,880,231
Total Liabilities	1,477,885	718,840	15,426,354	17,623,179
Revenues from Intercompany Sales - eliminated from sales above	2,665,615	629,629	1,150,997	4,446,241
Depreciation and Amortization	182,625	254,076	12,995	449,696
Purchases of Long-lived Assets	368,237	1,851,494	-	2,219,731

	Marine Technology Business (Products)	Marine Engineering Business (Services)	Overhead	Total
Fiscal Year 2014				
Revenues from External Customers	$ 9,387,525	$ 7,058,746	$ -	$ 16,446,271
Cost of Revenues	2,473,470	3,887,436	-	6,360,906
Gross Profit	6,914,055	3,171,310	-	10,085,365
Research & Development	1,128,542	-	-	1,128,542
Selling, General & Administrative	3,112,318	2,036,461	672,689	5,821,468
Operating Income (Loss)	2,673,195	1,134,849	(672,689)	3,135,355
Other Income (Expense)				
Other Income	5,388	938	-	6,326
Interest Expense	(542,842)	(514,601)	(517,261)	(1,574,704)
Unrealized gain on sale of investment in marketable securities	-	-	(9,719)	(9,719)
Total other income (expense)	(537,454)	(513,663)	(526,980)	(1,578,097)
Income (Loss) before income taxes	2,135,741	621,186	(1,199,669)	1,557,258
Income tax refund (expense)	92,937	(23,792)	-	69,145
Net Income (Loss)	$ 2,228,678	$ 597,394	$ (1,199,669)	$ 1,626,403
Total Assets	$ 11,336,875	$ 9,745,414	$ 109,411	$ 21,191,700
Total Liabilities	2,061,140	1,600,629	14,826,856	18,488,625
Revenues from Intercompany Sales - eliminated from sales above	2,295,145	570,811	1,468,201	4,334,157
Depreciation and Amortization	115,196	108,334	13,041	236,571
Purchases of Long-lived Assets	629,941	349,292	12,867	992,100

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

* United States
* Europe
* Australia

All inter-company sales have been eliminated from our financial statements. For the purposes of Segment Analysis reporting we are required to show inter-company sales and therefore the above table discloses this information.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the years ended October 31, 2015 and 2014 respectively:

External Revenues by Geographic Locations	**USA**	**Europe**	**Australia**	**Total**
Year ended October 31, 2015	$ 9,969,839	$ 8,308,080	$ 956,477	$ 19,234,396
Year ended October 31, 2014	$ 7,517,882	$ 8,709,751	$ 218,638	$ 16,446,271

Although our revenues have increased, our gross profit margins have decreased in the fiscal year ending October 31, 2015 compared to the previous fiscal year. This is largely due to the change in the mix of our sales in the 2015 period, with increased revenues generated in the Engineering Business. Our Services Segment has a higher direct costs of sales and therefore lower profit margins than our Products Segment. Additionally in the 2014 period the Marine Technology Revenues included significant rental revenues which are highly profitable for the Company. However, during the 2015 period, rental revenues declined and the utilization rate of our rental assets was down to 40% compared to 80% in the previous year.

C. Senior Debentures and Restructuring Agreement

At the date of issue (February 2008), the face value of these Debentures was $12 million

On August 18, 2014 the Company redeemed $2 million, thereby reducing the principal amount outstanding to $10 million.

Our current Balance Sheet includes a $10 million convertible secured debt (“Debentures”). The maturity date of the Senior Debentures is August 21, 2016. This was extended on 30 October 2016 to November 1, 2017 (see section below titled “Restructuring Agreement” for further information)

Until February 21, 2015 the Secured Debentures was subject to a redemption premium of 30% (“Terminal Conversion Premium). The Terminal Conversion Premium has now been fully accrued.

The Secured Debentures accrue interest at the rate of 8.5% per annum.

Our total indebtedness in respect of the Secured Debentures is $14,940,258 at October 31, 2015 compared to $14,611,738 at October 31, 2014.

A reconciliation of the Debentures is as follows:

	2015	2014
Bond Principal	$ 10,000,000	$ 10,000,000
Accrued Interest	1,382,122	1,191,816
Accrued Terminal Conversion Premium	3,558,136	3,419,922
Total Bond Payable	$ 14,940,258	$ 14,611,738

No further amounts will accrue for the Terminal Conversion Premium. These ceased in full on February 21, 2015. See paragraph immediately below on the conversion of the Terminal Conversion Premium element into the Company's Common Stock. This conversion will take effect from March 1, 2016.

Restructuring Agreement

The Company and the Senior Secured Debenture Holder have reached an agreement for the restructuring of the Senior Secured Debentures.

Extension of Maturity Date from August 31, 2016 to November 1, 2017: The parties have agreed to extend the maturity date of the Senior Secured Debentures with effect from October 30, 2015 to November 1, 2017 in exchange for the covenants and undertakings of the Company set out below.

Reduction of the Principal Amount of Loan Outstanding: The Company has covenanted to repay $2,000,000 of the principal amount outstanding under the Senior Secured Debentures. This amount will be paid over 10 months, with the first payment due on March 31, 2016.

Covenant to return to SEC Reporting: the Company has also covenanted to undertake the necessary steps to return to SEC reporting no later than 12 months from March 1, 2016.

Conversion of the portion representing the Terminal Conversion Premium into Common Stock: The Company and the Senior Secured Debenture Holder has also agreed to convert a part of the Company's indebtedness under the Loan Note Instrument into the Company's Common Stock. In this connection, the Parties have agreed to apply the portion representing the Terminal Conversion Premium outstanding at the date of the Agreement and being $3,558,136 into the Company's Common Stock at an exercise price of $0.11 with effect from March 1, 2016. This will result in the Company issuing 32,346,682 shares of Common Stock. This takes effect from March 1, 2016 and our financial statements as of October 31, 2015 have not been adjusted to take into account this conversion.

Failure to comply with the terms of the Deed of Amendment constitutes an event of default that would result in, amongst other things, an acceleration of the Company's obligations under the Senior Debentures.

The Company believes that the restructuring will have a positive impact on the Company's financial condition. The reduction of the debt burden of the Group will pave the way for realistic refinancing of the outstanding balance of the Senior Secured Debentures and also will reduce the amounts that the Company expends on servicing interest obligations under the Senior Secured Debentures. Notwithstanding, whilst the Company will make best endeavors to seek refinancing for the remainder of the Senior Secured Debentures, it cannot guarantee that its efforts will be successful in whole or in part.

Comparison of audited year ended October 31, 2015, with audited year ended October 31, 2014.

Revenues for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	**Year Ended October 31, 2014 Audited**	**Percentage Change**
$19,234,396	$16,446,271	Increase of 16.9% ("Increase")

The Increase in Revenues is due to the increase in revenues in our Marine Engineering Business. This segment has generated 49% of our total revenues as compared to 43% in the previous 2014 period. Whilst our revenues in the Marine Technology Business has increased by 4.1%, we are still adversely affected by the reduction in spending (both capital and operational) in the Oil and Gas Sector resulting from the sharp price decline in both oil and gas. The Sector has seen large reduction in capital and operational expenditures which has resulted in delays or cancellation of projects. This has had an adverse impact on the sales of our products overall and, thus, performance of this Business Segment.

Gross Margins for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	**Year Ended October 31, 2014 Audited**	**Percentage Change**
53.8%	61.3%	Decrease of 12.3% ("Decrease")

This Decrease in gross margin percentage reflects the different mix of sales in the 2015 period with more revenues generated in our Marine Engineering Business where the Gross Margins are lower than in our Marine Technology Business. Additionally our Marine Technology revenues are mainly comprised of revenues from the sale of our products as opposed to revenues from rental of our products. In the 2014 period a significant percentage of our revenues was generated from the rental of our products. In the 2015 period this changed insofar as the revenues realized from this segment are from sale of our products as opposed to sales from rental of our products. We have a higher gross margin on the rental of our products.

Research and Development (R&D) for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$998,270	$1,128,542	Decrease of 11.5% ("Decrease")

Although this area of spending was reduced in the 2015 period, we expect this to increase in this current year as we are investing significantly in the technological advancement of our real time 3D sonar technology. This investment will be in bringing in new skills and incurring significant non-recurring engineering costs (NRE) for prototyping new real time 3D products. Our goal will be to bring more competitively priced and technologically advanced products in this range to the market in the first quarter of 2017. Notwithstanding, these are complex products and we can give no assurance that we will be successful in the stated goals. Moreover we may incur significant research expenditures without realizing viable products.

Selling, General and Administrative Expenses (SG&A) for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$7,482,738	$5,821,468	Increase of 28.5% ("Increase")

The Increase in our SG&A expenditures is attributed to some exceptional items in the 2015 period. These include exceptional (i) Legal and Professional Fees of $1,100,000 relating to the litigation reported in the 2014 period, which has now been fully settled, and associated costs and exceptional costs incurred in connection with the restructuring of the Series A Preferred Stock; and (ii) exceptional expenditures of around $240,000 associated with moving Production of our flagship product, the Echoscope®, from Bergen, Norway to Edinburgh, United Kingdom. Without the exceptional expenditures itemized above, during the 2015 period our SG&A expenditures for the year ended October 31, 2015 would have been $6,142,738, which is an increase of 5.5% on the 2014 period and more in keeping with our future projections of these expenditures for the Group.

For the 2016 period we would expect SG&A expenditures to be between 8 and 10% higher than the 2014 period (and therefore significantly lower than the 2015 period).

Key Areas of SG&A Expenditure across the Group for the year ended October 31, 2015 compared to the year ended October 31, 2014

Expenditure	October 31, 2015	October 31, 2014	Percentage Change
Wages and Salaries	$4,239,294	$4,077,606	Increase of 4.0%
Legal and Professional Fees (including accounting, audit and investment banking services)	1,646,823	$696,239	Increase of 136.5%
Rent for our various locations	$341,259	$323,907	Increase of 5.4%
Marketing	$308,342	$362,813	Decrease of 15.0%

The Increase in our Legal and Professional Fees is mainly due to the settlement of the previously reported litigation and costs associated with restructuring our Series A Preferred Stock.

We expect SG&A expenditures in the 2016 fiscal year to be lower than those incurred in the 2015 period as we had exceptional non-recurring items of approximately $1,340,000.

Operating Income for the year ended October 31, 2015 compared to the year ended October 31, 2014.

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$1,859,519	$3,135,356	Decrease of 40.7% ("Decrease")

The Decrease in Operating Income compared to the previous year is mainly attributed to the factors outlined immediately below.

We have suffered a decrease in our Gross Profit Margins on Revenues generated over the fiscal year due to the mix of our sales. Our Service Segment has generated 49% of our revenues as compared with 43% in the previous 2014 period. The Service Segment has a higher direct cost of sales than the Products Segment.

We have also suffered an increase in our SG&A expenditures due to incurring exceptional non-recurring costs relating to Legal and Professional Fees, Restructuring the Preferred Series A stock and costs associated with moving our production from Bergen, Norway to Edinburgh, United Kingdom. This has resulted in exceptional expenditures in excess of $1,340,000. Without these exceptional items within our SG&A expenditures, our Operating Income for the year ended October 31, 2015 would have been $3,199.519 which would have been an increase of 2.1% over the 2014 period.

Other Income for the year ended October 31, 2015 compared to the year ended October 31 2014.

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$358,808	$6,326	Increase of 5,572%

The increase in "Other Income" is attributed to increased Value Added Tax (equivalent of Sales Tax) rebate on stock and other production assets purchased by Coda Octopus Products Limited from our Norwegian Company, Coda Octopus R&D AS, as part of the transfer of our Production from Norway to Edinburgh.

This is exceptional and we anticipate that the "Other Income" category will not contain significant amounts going forward.

Interest Expense for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$1,044,906	$1,574,704	Decrease of 33.6%

The Interest Expense numbers shown above, include both interest payments attributable to the Senior Convertible Debentures and amortization of the 30% redemption premium ("referred to as Terminal Conversion Premium" in the reconciliation set forth in this report). for those Secured Debentures. The Decrease reflects the reduction in the principal amount by $2,000,000 and the related reduction in interest expenses and in the amount accrued for redemption premium. No further redemption premium will accrue going forward. However, we continue to be under an obligation to pay 8.5% interest on the principal amount of the Secured Debentures outstanding ($10M by October 31, 2015). Following the Restructuring Agreement between the Debenture Holder and the Company dated October 30, 2015 the principal amount will decrease by $2M over the period from March to December 2016 and our interest payment going forward will also decrease proportionally to the reduction of the principal amount).

Net Income after income tax for the year ended October 31, 2015 compared to the year ended October 31, 2014

Year Ended October 31, 2015 Audited	Year Ended October 31, 2014 Audited	Percentage Change
$1,070,291	$1,626,403	Decrease of 34.2% ("Decrease")

The Decrease in Net Income Operating Income compared to the 2014 period is mainly attributable to the following factors:

- Our SG&A expenditures contain significant non-recurring expenditures of approximately $1,340,000 which is made up of legal fees associated with previous litigation; costs incurred in restructuring our Series A Preferred Stock; and one-time costs associated with moving the production of our flagship product from Norway to Scotland (Edinburgh);

- During the 2015 period the make-up of our sales of Products and Services were very different from the 2014 period. In particular, we generated 49% of our total sales from our Service Segment (as compared to 43% in the 2014 period). The Service Segment has a higher direct cost of sales than our Products Segments. This mix of sales, resulted in a lower gross profit margin on our revenues.

Potential investors should carefully consider the risks and uncertainties and other information described in this document before deciding whether to invest in shares of our common stock. For a more complete description of the risks to our business please refer to the section "Risk Factors" below.

Off Balance Sheet Arrangements

There are no material off balance sheet arrangements in the Group in this or the prior period.

Item 6: Business

1. Overview

Coda Octopus Group, Inc. and its subsidiaries ("the Company", "we", "us", "our Group") are experts in sub-sea marine technology. We are also in marine and defense engineering provided through two of our wholly owned subsidiaries.

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

Our Group structure is shown on page 21 below.

Our Group comprises the subsea Marine Technology Businesses that are conducted through our three wholly owned subsidiaries, Coda Octopus Products Limited (United Kingdom), Coda Octopus Products, Inc. (USA.) and Coda Octopus Products Pty Limited (Australia).

Our most important product, the patented Echoscope® (and its derivatives such as Dimension® and our Underwater Inspection System (UIS™)), generates high resolution real time images in 3D of the

underwater environment and gives particular benefits in turbid/zero visibility environments. The Echoscope® gives the user reliable underwater intelligence in real time. We are unaware of any other sonar devices that provide 3D real time visualization capabilities with the range and resolution of the Echoscope®.

We believe the software used with the Echoscope®, CodaOctopus Underwater Survey Explorer, to be cutting edge in providing what we believe to be unparalleled real time images of subsea environments. We further believe that we can maintain this lead as a consequence of the significant research and development resources we have invested, and continue to invest in this field. We also believe that the Echoscope® technology has significant potential to displace conventional 2D sonar tools and multi-beam sonar devices in a number of core applications such as real time monitoring, complex mapping and dynamic surveys.

The Group also comprises the Marine Engineering Businesses conducted through two of our wholly owned subsidiaries, Coda Octopus Colmek, Inc. ("**Colmek**") based in the USA and Coda Octopus Martech Limited ("**Martech**") based in the United Kingdom.

Our marine and defense engineering operations, which have long established defense engineering experience, mainly provide their services to prime and second level defense contractors, quasi-government institutions and the like. Frequently, they secure repeat revenues from developing prototypes which then turn into long term manufacturing contracts. For example, Colmek has been a supplier of key components in the Phalanx ship defense program for several years running.

Similarly, Martech developed the prototype and now manufactures a decontamination unit which forms part of the recommended ground equipment for a major international military aircraft program.

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

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

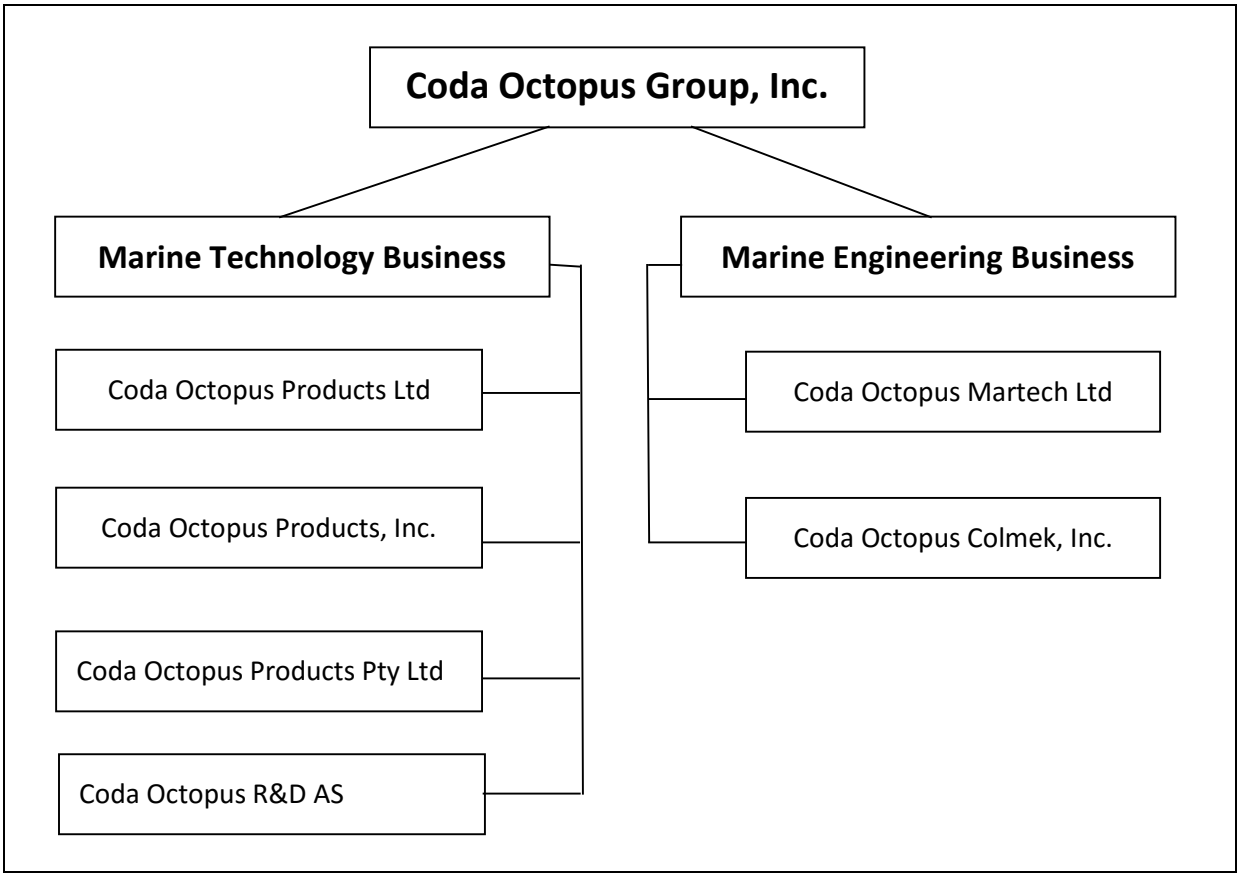
- Colmek is ISO9001:2008 compliant.

Martech is now fully established in new facilities owned by the Marine Technology Business and will be providing more support to the Marine Technology Business on developing and supporting its flagship real time 3D Products.

The engineering capability within our Group (at the date of this Report we have approximately 70 highly skilled engineers) forms a key part of our strategy for developing our existing technologies and new ones for the marine markets.

2. GROUP STRUCTURE

Our Group Structure is as follows:



3. Marine Technology Business

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

- Commercial Marine Geophysical Survey (including Oil and Gas); and
- Underwater Defense, Security, Construction, Salvage and Decommissioning.

In the commercial marine geophysical survey sector, our products include geophysical data acquisition systems, analysis software and motion detection equipment. Our products acquire data and interpret these for the users. These users are generally survey companies, research institutions and salvage companies.

We believe we possess an important and unique sonar technology that gives us a significant advantage over our competitors in a number of applications such as port security, underwater construction and oil

and gas markets. This comprises our range of products based on our patented Echoscope® which we believe are revolutionizing the sonar market, particularly in real time data acquisition, visualization and post-acquisition processing of subsea images and positioning. This patented technology is the result of more than twenty years of research and development by our subsidiary, Coda Octopus R&D AS (CORDAS), Norway, which we acquired in 2002 and our software development team based in Edinburgh, United Kingdom.

Since the acquisition of CORDAS we have significantly advanced our research and development with respect to this technology in both hardware and software terms, filed further patents and brought to the market the second generation of the Echoscope® and the Underwater Inspection System (UIS™) and new derivative products, such as our forward looking sonar - Dimension®. The UIS™ integrates the Echoscope® with, amongst other elements, our positioning device, the CodaOctopus F180® to make a real time underwater inspection and surveillance device. The UIS provides superb visualization combined with absolute positioning at accuracies of up to 2 cm (<1") and is used primarily in port and harbor security.

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

Moreover, many users in complex situations such as underwater construction are reporting significant time savings, and health and safety benefits, which allow them to out-perform their competitors. We believe that the Echoscope®, which is being referred to by one of our significant customers as "[their] underwater eyes", is making progress in shifting the conservative approach of the sonar market. As a result, we believe that this product is now being viewed as the product of choice in many complex operations. Moreover many users of the Echoscope® report significant productivity gains in their operations and hence reduction of the costs of these operations.

It is our belief that our next generation of the Echoscope® will become the tool of choice for a number of applications in marine electronics and sonar industry.

The Echoscope® has a wide range of applications including:

- inspection of harbor walls;
- inspection of ship hulls;
- inspection of bridge pilings;
- inspection of offshore installations such as gas and oil rigs and wind turbines;
- Remotely Operated Vehicle (ROV) navigation (obstacle avoidance);
- Autonomous Underwater Vehicle (AUV) navigation and target recognition (obstacle avoidance);

- construction - pipeline touchdown placement and inspection;
- obstacle avoidance navigation;
- bathymetry (measurement of water depth to create 3D terrain models);
- managing underwater construction tasks;
- underwater intruder detection;
- dredging and rock dumping;
- contraband detection;
- locating and identifying objects undersea, including mines;
- detection and study of individual species in real time 3D (fish, whales etc.);
- oil and gas leak detection;
- fish school detection and analysis;
- diver tracking and guidance;
- underwater archaeological and salvage site mapping;
- decommissioning;
- offshore renewable energy – cable laying and burial and pull-in;
- marine salvage operations;
- harbor construction – concrete armoring; and
- unexploded Ordinances survey and intervention.

The Echoscope® technology is protected by patents including a number of complementary patents such as a patent which covers our visualization methodology and our rendering of our real time 3D images. For example, one of our recently awarded rendering patents provides for a new method of using multiple sonar images to produce in real-time 3D a super-detailed image with sharply defined edges whilst intelligently discarding "noise" in the image produced by (for example) passing fish or floating debris.

We market the Echoscope® both as a stand-alone sonar device and as a fully integrated system, branded the UIS™ (Underwater Inspection System). The latter is specifically aimed at the port security market. We are now regularly seeing repeat customers for the equipment. Therefore, we believe that this product is getting more market acceptance and penetration and that these customers are getting significant returns on investments in deploying this device.

Under our Technology Access Program (TAP) we have made considerable progress in introducing our real time 3D technology, the Echoscope®, to Oil and Gas (O&G) majors and renewables. However, many oil and gas operators do not purchase equipment (instead, they rent or lease).

Intellectual Property

Our product portfolio and technologies are protected by intellectual property rights including trademarks, copyrights and patents. We have a number of fundamental patents including a patent covering the stitching together of acoustic imagery. This covers the real time acoustic image generation element of what we do, and we believe it provides us with a competitive advantage.

Our patented inventions along with our strategy to enhance these inventions are at the heart of the Company's strategy for growth and development.

Our Patent portfolio consists of the following:

Patent Number	Description
US Patent No. 6,438,071	Concerns the "Method for Producing a 3-D Image" and is also recorded in the European Patents Register #EP 1097393 B1; Australia #55375/99 and Norway #307014. This patent relates to the method for producing a 3D image of a submerged object, e.g. a shipwreck or the sea bottom.
US Patent No. 6,532,192	Concerns "Subsea Positioning System and Apparatus"
US Patent No. 7,466,628	Concerns a "Method of constructing mathematical representations of objects from reflected sonar signals."
US Patent No. 7,489, 592	Concerns a "Method of automatically performing a patch test for a sonar system, where data from a plurality of overlapping 3D sonar scans of a surface, as the platform is moved, are used to compensate for biases in mounting the sonar system on the platform".
US Patent No. 7,898,902	Concerns a "method of representation of sonar images" allowing sonar three dimensional data to be represented by a two dimensional image.
US Patent No. 8,059,486	Concerns a method of rendering volume representation of sonar images.
US Patent No. 8,854,920	Concerns a method of volumetric rendering of three dimensional sonar data sets
US Patent No. 9,019,795	Method of object tracking using sonar imaging

Trademarks

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

We also use the following trademarks: F170™, F175™, UIS™ TEAM™ and TEAM+™. In addition, we have registered a number of internet domain names.

4. Our Marine Engineering Businesses

We operate our marine engineering and defense business through our two marine engineering services subsidiaries, Coda Octopus Martech Limited, based in Portland (Dorset), United Kingdom, and Coda Octopus Colmek, Inc., based in Salt Lake City, Utah, USA.

We provide engineering services to a wide variety of clients in the subsea and defense markets.

A significant part of these services are provided to prime and second level defense contractors and are often for prototype production which can lead to long term manufacturing contracts. In connection with the engineering services provided, the intellectual property rights are often retained by the customers but the know-how obtained during the prototype development and manufacturing often gives us preferred supplier status for the long term manufacturing contracts and the obsolescence management and after-service care. The engineering capabilities within our Group are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation, upgrade and support to our products.

Unique Selling Propositions and Prospects

We believe that we have the ability to capitalize on the opportunity that the Echoscope® technology presents as a result of:

- First mover advantage in real-time 3Dsonar markets underpinned by cutting edge proprietary software. We believe we are the first to bring to the market a sonar device with the capabilities of our patented Echoscope® technology. Our research and development efforts from which this product derives have extended over two decades and we believe we have a real advantage in the knowledge and skills that we have in this field.

- We believe the barriers to entry into the real time 3D sonar market for competitors are high given the extensive research and development required, and costs involved to develop such technologies. We are aware of a number of research and development programs by large players to develop real time 3D sonar which have failed. Our competitive lead comes from our 20 plus years of research and development in this field including on both the hardware and software side.

- We are the holders of a number of key patents in this area.

- We believe we are now in a position to exploit the Echoscope® technology by expanding this technology into a range of more price competitive products without significant further research and development costs or time delay. The first of these products, the Dimension®, has been launched and sold to customers and the same applies to the second more price competitive product, the Echoscope® C500.

- We believe that our technology is poised to be the next generation sonar tool of choice in a number of sectors. Examples include the underwater construction sector where significant time savings and health and safety benefits are consistently reported and the port security area where our Underwater Inspection System (UIS) gains equal recognition for its capabilities. We believe that the UIS is currently recognized in many sectors as the only available solution.

- The Echoscope® is now being recognized as a product capable of delivering significant benefits in multiple applications. As a result, many underwater construction companies are revising their methodologies for making breakwaters or subsea asset placements (such as sleepers or Accropodes™). This is highly desirable for many customers who have the need for survey, monitoring and inspection and who typically otherwise would require two or more different sonars and configurations. Many customers now use the Echoscope® in this manner and are achieving considerable savings in time, (thus money) and also health and safety benefits in the underwater construction market.

- The real time visualization capabilities of the Echoscope® have made it a device of serious interest to the search and recovery arm of law enforcement agencies. It is evident that in this scenario a tool that can provide real time images will have the lead over a conventional sonar tool whose proposition is to "see later". As we continue our next generation of this technology we believe this will be seen as the sonar tool of choice in these types of recovery operations.

- We believe that the Echoscope® will transform certain segments of the sonar product market as it has the ability to change the current industry standard practice and expectations in respect of the method for visualization and imaging of underwater objects and environment.

5. Corporate History

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

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

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

This technology (now marketed by us under the name of Echoscope® and its derivative product Dimension® and Echoscope® C500), which continues to be developed by our Research and Development companies, allowed the Company to start to expand its original focus on hydrographic and geophysical survey to include port security and defense, with particular emphasis on the US market.

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

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

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

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

During April and May 2007, we entered into a series of securities purchase agreements with a group of accredited individuals and institutional investors ("Subscribers") providing for the issuance of 15,000,000 shares of our common stock and five year warrants to purchase 7,500,000 shares of common stock at $1.30 and 7,500,000 shares of common stock at $1.70. These securities purchase agreements and warrants contained certain price protection and anti-dilution provisions ("Agreements"). Between

October and December 2010 in exchange for the termination of the Agreements and the surrender of the warrants by a number of purchasers, the Company issued 21,857,143 shares of common stock to a number of these subscribers. The surrendered warrants were cancelled by the Company. All warrants issued to this class have now either been surrendered pursuant to the arrangement described above or have expired.

On February 21, 2008, we borrowed $12 million (of which $2 million was redeemed during the year ended October 31, 2014) under a convertible secured promissory note ("Secured Debentures"). The terms of the Secured Debentures provided for a redemption premium of 30% upon redemption or maturity (whichever occurs earlier) referred to in the reconciliation below as "Terminal Conversion Premium". Our obligations under the Debentures are secured by all our assets. The Secured Debentures incur interest of 8.5% per annum and are convertible at the debenture holder's option at any time at a conversion price of $1.05 per share. The Company may also force the conversion of the Debentures if certain conditions are met. Specifically, the Company may force a conversion if our common stock closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of the agreement; at or above $2.90 between the third and fourth anniversaries of the agreement; and at or above $3.50 after the fourth anniversary of the agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US national exchange on which our securities are then listed has for at least 40 consecutive trading days closed at the agreed price. The original maturity date for the Secured Debentures was February 21, 2015. In August 2014 the Company and the Debenture Holder agreed to an extension of the maturity date to August 21, 2016, subject to the Company keeping current under its loan covenants. The Company and the Debenture Holder entered into a Restructuring Agreement on or around October 30, 2015 under which the parties agreed to extend the maturity date to November 1, 2017 in exchange for certain promises and covenants (see section below on "Restructuring Agreement")

We have started the process of restructuring the debt. Below is a summary of current position of the Senior Debentures:

Issue Date	February 21, 2008
Face Value at Issue	$12,000,000
Redemption Premium	30%
Interest	8.5% per annum
Current Face Value	$10,000,000 - $2M redeemed in August 2014
Terminal Conversion Premium	$3,558,136 – fully accrued in our accounts
Current Interest	8.5% per annum
Original Maturity Date	February 21, 2014
Current Maturity Date	Revised to November 1, 2017 pursuant to Restructuring Agreement entered into on or around October 30, 2015
Current Outstanding Balance	$14,940,258

A reconciliation of the Debentures is as follows:

	2015	2014
Bond Principal	$ 10,000,000	$ 10,000,000
Accrued Interest	1,382,122	1,191,816
Accrued Terminal Conversion Premium	3,558,136	3,419,922
Total Bond Payable	$ 14,940,258	$ 14,611,738

Restructuring Agreement

The Company and the Senior Secured Debenture Holder have reached an agreement for the restructuring of the Senior Secured Debentures.

Extension of Maturity Date from August 31, 2016 to November 1, 2017: The parties have agreed to extend the maturity date of the Senior Secured Debentures with effect from October 30, 2015 to November 1, 2017 in exchange for the covenants and undertakings of the Company set out below.

Reduction of the Principal Amount of Loan Outstanding: the Company has covenanted to repay $2,000,000 of the principal amount outstanding under the Senior Secured Debentures. This amount will be paid over 10 months, with the first payment due on March 31, 2016.

Covenant to return to SEC Reporting: the Company has also covenanted to undertake the necessary steps to return to SEC reporting no later than 12 months from March 1, 2016.

Conversion of the portion representing the Terminal Conversion Premium into Common Stock: The Company and the Senior Secured Debenture Holder has also agreed to convert a part of the Company's indebtedness under the Loan Note Instrument into the Company's Common Stock. In this connection, the Parties have agreed to apply the portion representing the Terminal Conversion Premium outstanding at the date of the Agreement and being $3,558,136 into the Company's Common Stock at an exercise price of $0.11 with effect from March 1, 2016. This will result in the Company issuing 32,346,682 shares of Common Stock. This takes effect from March 1, 2016 and our financial statements as of October 31, 2015 have not been adjusted to take into account this conversion.

Failure to comply with the terms of the Deed of Amendment constitutes an event of default that would result in, amongst other things, an acceleration of the Company's obligations under the Senior Debentures.

The Company believes that the restructuring will have a positive impact on the Company's financial condition. The reduction of the debt burden of the Group will pave the way for realistic refinancing of the outstanding balance of the Senior Secured Debentures and also will reduce the amounts that the Company expends on servicing interest obligations under the Senior Secured Debentures.

We are currently seeking new financing to redeem the current Secured Debentures.

6. Competition

Competition in Subsea Sector and relevant to our Marine Technology Business

We compete with numerous companies, some of which are much larger than we are with much greater financial, technical and human resources and recent consolidation in this market indicates that the competition will be fiercer for us. The markets for underwater technologies, including data collection, mapping and imaging are substantial, with a broad range of industry applications.

The Company's goal is to establish industry leadership in the segments in which it competes.

Products

Data Acquisition Products: The sonar equipment industry is fragmented with several companies occupying niche areas, and we face specific competition from different competitors with respect to our different products. In the field of geophysical products Triton Imaging Inc., a US-based company, now part of the ECA Group (Toulon, France), Chesapeake, a US-based company, and Oceanic Imaging Consultants, Hawaii, USA, dominate the market with an estimated of 25% each of world sales, while we believe that we are just behind this with 15% of world-wide sales.

Motion Sensing Products: In the field of motion sensing equipment, where our product addresses a small part of the overall market, we believe that we have four principal competitors - TSS (International) Ltd in Watford, England which is focused on the mid-performance segments with about 25% of the world market; Ixsea, a French company which covers all segments, with about 20% of the market; Seatex, a Norwegian company, part of Kongsberg Simrad which has products across all segments, with about 15% of the market; and Applanix, a Canadian company, now part of Trimble which has one major product focused on the high end of the market, with about 20% of the market. We believe that our market share in the field of motion sensing equipment is only about 10% at present.

Real Time 3D Sonar*:* In the field of 3D real time imaging, we believe that we have no direct competition at present since we are unaware of other companies offering such a product. The entry into this market is dependent upon specialized marine electronics and acoustic skills. The learning curve, which has resulted in the advancement of our real time 3D sonar device, is the culmination of two decades of research and development into this field. We are also aware of a number of high profile and substantial competitors' real time 3D projects that have failed. Over the last several years there have been lower grade sonars entering the market of 3D imaging. Companies such as Tritech International Ltd., United Kingdom, and BlueView Technologies Inc., USA, are examples, but none of these sonar offerings are direct comparisons or competititors as we believe that they do not have the same capabilities as our patented Echoscope® technology in terms of generating real time 3D images of submerged objects and environments.

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

Competition in services relevant to our Marine Engineering Businesses

Through our Marine Engineering operations, Coda Octopus Colmek, Inc. and Coda Octopus Martech Limited, we are involved in custom engineering for the defense industry in the US, and for the defense and nuclear industries in the United Kingdom. In this segment, our strongest competitors are our clients themselves. As a result, of their size, they often have the option to proceed with a project in-house instead of outsourcing to a sub-contractor like Martech or Colmek.

7. Risk Factors as they relate to our Group

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this statement before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could be materially and adversely affected. This could cause the trading price of our common stock to decline, with the loss of part or all of an investment in the common stock.

If we are unable to repay the outstanding Debentures when due or restructure this debt obligation, our largest creditor may foreclose on our assets.

In February 2008, we issued $12 million in Secured Convertible Debentures. As of October 31, 2015 the total amount on our balance sheet which represents the principal amount, interests and redemption premium is $14,940,258. A full reconciliation of this can be found in Note 9 to our Financial Statements.

The terms of the Secured Debentures provide for a Redemption Premium of 30% upon redemption or maturity (whichever occurs earlier) – referred to as “Terminal Conversion Premium” in reconciliation statement shown in this report. Our obligations under the Debentures are secured by all our assets. The Debentures incur interest of 8.5% per annum and mature on November 1, 2017.

The Company does not currently have the cash to repay the all of the Debentures. Moreover, in the absence of a significant increase in the Company’s cash flow from operations, it cannot provide assurance that it will have the cash available at the maturity date of the Debentures. If we are unable to pay off the Debentures in a timely manner or renegotiate their repayment terms, the holder of the Debentures has the right to, amongst other things, foreclose on all of the Company’s assets.

In addition, to the extent that we are successful in renegotiating the Secured Debentures, this will likely require the issuance of large numbers of shares of common stock that may result in significant dilution of our existing shareholders.

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

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

We have no current arrangements with respect to any additional financing except for a limited overdraft facility with our UK banks and a limited line of credit available to Coda Octopus Colmek, Inc. Consequently, there can be no assurance that any additional financing on commercially reasonable terms is or will be available at all when needed.

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

(i) Continued scientific progress in our Research and Development programs;
(ii) Competing technological and market developments;
(iii) Our ability to establish additional collaborative relationships;
(iv) The effect of commercialization activities and facility expansions if and as required;
(v) Our ability to maintain and improve the performance of the Company, which is largely dependent on the ability of management to focus on the core drivers for growth.

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

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

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

- success in designing and manufacturing of new products that implement new technologies;
- product quality, reliability and performance;
- customer support;
- ready availability of electronic components;
- price; and
- market acceptance of our products against our competitors' products.

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

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

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

- fluctuations in the timing and amount of customer requests for product shipments;
- the reduction, rescheduling or cancellation of orders by customers which is particularly relevant when oil prices are at the very low current level. Typically our products sell when the price of oil is $100 or more. Currently, with the low price of oil , there is considerable risks that our revenues generated from our Marine Technology Business will decline significantly
- our ability to respond to reduced revenues is limited since our costs are fixed or the costs of reducing our overheads over a short period will be considerable.
- increases in the costs of manufacturing our products;
- the gain or loss of key customers;
- availability of capital;
- customer payment cycles;
- supply chain pressures;
- significant failure in our products including the Echoscope®;
- our ability to introduce and deliver new products and technologies on a timely basis;
- competitive pressures on selling prices;
- market acceptance of our products and our customers' products which incorporate our products;
- the amounts and timing of investments in research and development and the ability of our research and development effort to design and incorporate new technologies into our existing technologies; and
- competing products being introduced by our competitors.

Our business, financial condition and operating results would be harmed if we do not achieve anticipated revenues.

Our expense levels are expected to be relatively fixed and will be based on our expectations of future revenues. We have limited ability to reduce expenses quickly in response to any revenue shortfalls. Thus, a significant shortfall in revenues would have a deleterious effect on our survival.

Our customers are concentrated in small well-networked groups. The loss of one or more key customers or the diminished demand for our products from a key customer could significantly reduce our revenues and profits.

A small number of customers have accounted for a significant portion of our revenues. We have no long-term volume purchase commitments from any of our key customers. One or more of our key customers may discontinue operations as a result of consolidation, liquidation or otherwise. We cannot give

assurance that our current customers will continue to place orders with us, or that we will be able to obtain orders from new customers.

Our markets are subject to rapid technological change, so our success depends heavily on our ability to develop and introduce new products.

The markets for our products are characterized by:

- changing technologies, practices and requirements for our current products or services;
- changing customer needs;
- competition; and
- product obsolescence.

The pursuit of technological advances may require substantial time and expense and may ultimately prove unsuccessful. If we are not successful in introducing such advances, we will be unable to bring new products to the market and our revenues will suffer.

Our dependence on third-party manufacturing and supply relationships increases the risk that we will not have an adequate supply of products to meet demand or that our cost of materials will be higher than expected.

The risks associated with our potential dependence upon third parties which manufacture, assemble or package certain of our products, include:

- reduced control over delivery schedules and quality;
- difficulties selecting and integrating new subcontractors;
- limited warranties on products supplied to us;
- potential increases in prices; and
- potential misappropriation of our intellectual property.

The complexity of our products may lead to errors, defects and bugs when they are first introduced, which could negatively impact our reputation with customers.

Products as complex as ours may contain errors, defects and bugs when first introduced, when new versions are released or if there are flaws or errors in the production process with subcontractors / suppliers. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of the products or result in a costly recall. Any of these events, could, in turn, damage our reputation and adversely affect our ability to retain existing customers and to attract new customers. Errors, defects or bugs could cause problems, interruptions, delays or cessation of sales to our customers causing a material adverse effect on our business, financial condition and results of operations.

Our future success depends in part on the continued service of our key design engineering, sales, marketing, manufacturing, and executive personnel and our ability to identify, hire and retain additional, qualified personnel.

There is intense competition for well qualified personnel in the visualization industry, in particular hardware and software design, product and test engineers. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development of our business, or to replace engineers or other qualified personnel who may leave our employment in the future. Loss of the services of, or failure to recruit, key design engineers or other technical and management personnel could be significantly detrimental to our product development.

Leasing of our real time 3D products while providing an acceptable rate of return is high risk.

Under the terms of doing business with our customers offshore, we bear the risks of equipment failure (and, in event of such failure, we will not be paid the contractual rental rate for such equipment rental or service engineers who operate the equipment). Upon a sale of our product our liability is limited to provision of 12 months warranty for manufacturer's defects. We have the discretion to either repair or replace defective item. On a rental we could lose the rental income and incur significant costs in terms of engineer's time on the project and shipping costs.

Price of Oil and Gas Declining

In respect of our Marine Technology Business we sell a significant part of our products and services in the Oil & Gas Sector. The decline of capital and operational budgets as a result of the recent significant decline in the price of oil is likely to have a negative impact on our revenues from this sector. Furthermore, it is widely reported by Industry Experts that 2016 will see continued instability in the Oil and Gas Sector and we anticipate that our revenues from this Sector will be adversely affected.

***We have in the past and may in the future make acquisitions that will involve numerous risks. We may not be able to address these risks successfully without substantial expense, delay or other operational or financial problems*.**

The potential risks involved with acquisitions include:

- potential dilution to our stockholders, or use of a significant portion of our available cash;
- diversion of management's attention in integrating acquired companies;
- failure to retain key personnel of the acquired companies;
- difficulty in completing an acquired company's in-process research or development projects;
- the cost associated with acquisitions including one time charges or increased debt or contingent liabilities;
- difficulties competing in markets that are unfamiliar to us;
- ability of the acquired companies to meet their financial projections; and

- unforeseen events or circumstances.

Any of these risks could materially harm our business, financial condition and results of operations. Future acquisitions could adversely affect operating results.

***We may not be able to protect our intellectual property adequately*.**

We rely in great part on patents to protect our intellectual property. We cannot provide assurance that our pending patent applications or any future applications will be approved, or that any issued patents will adequately protect the intellectual property in our products or will not be challenged by third parties, or, if challenged, will be found to be valid or enforceable. Furthermore, others may independently develop similar products or processes, duplicate our products or processes or design around any patents that may be issued to us. The failure or inability by us to meaningfully protect our intellectual property and to prosecute infringements of our intellectual property rights could have a material adverse effect on our business, financial condition and operating results.

***Our marketplace contains companies with greater financial resources than ours*.**

Our technology and our products based on our technology compete against other geophysical and sonar products manufactured by large corporations. These corporations have significantly greater financial resources than we do. Some of the top tier defense contractors, such as Raytheon, BAE Systems, Northrop Grumman and L3, have significant development capabilities and financial strength to create, develop, manufacture and market new competing products. We are also competing with those companies as they are constantly considering whether to outsource contracts to our engineering companies or to keep the tasks in-house.

***An active market for our common stock may not develop, making it difficult for you to sell your stock*.**

There has been only a limited public market for our common stock. It is uncertain if and to what extent an active trading market will develop or how liquid that market might become. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

8. Legal Proceedings

None.

9. **The nature of products and services offered.**

Our Products

The markets and segments we address through our sub-sea Marine Technology Business are split between commercial and defense and are defined broadly as:

Commercial Seabed Survey

- oil & gas
- offshore wind energy
- pipe and cable route surveys
- subsea construction
- academic research
- hydrographic charting
- dredging and mineral extraction

Defense & Security

- harbor security
- intruder detection and protection
- ship protection
- obstacle avoidance
- mine countermeasures
- naval hydrography
- naval ship defense systems

Product Lines in General

Our products are marketed under the "CodaOctopus" brand and consist of three product lines:

- /3D which includes our unique and patented real time 3D sonars and cutting-edge software that is shaping the future of subsea operations;
- /GEO which includes integrated hardware acquisition devices with feature rich post-processing software for all levels of geophysical survey work
- /MOTION comprising a range of GPS-aided precision attitude and positioning systems and post-processing software for all types of marine survey and positioning work.

Data acquisition and interpretation systems

CodaOctopus GeoSurvey data acquisition and interpretation software provides feature rich solutions and productivity enhancing tools for the most exacting survey requirements, backed by 24/7 technical support. Designed specifically for side-scan and sub-bottom data acquisition, CodaOctopus GeoSurvey™ has been purchased by numerous leading survey companies throughout the world.

This product range includes:

CodaOctopus GeoSurvey Acquisition products: A range of hardware and software solutions for field acquisition of sidescan sonar and sub-bottom profiler, which includes analogue and digital interfaces compatible with all geophysical survey systems. This is our original product range, and main products within this range include:

- DA4G - 500, Sidescan sonar and sub-bottom profiler simultaneously
- DA4G - 1000, Sidescan sonar and sub-bottom profiler separately
- DA4G - 2000, Sidescan sonar or sub-bottom profiler

CodaOctopus GeoSurvey Productivity Suite: An integrated suite of software automating the tasks of analyzing, annotating and mosaicing complex data sets – thereby ensuring faster and more precise results.

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

This product range comprises:

The DA4G™ series of acquisition systems which provide high quality, robust and reliable data acquisition from the latest digital and analogue sidescan sonar and sub-bottom profiler sensors.

DA4G™ is the 4th generation of our successful DA series® and is built on twenty years of knowledge, experience and innovation in supplying unparalleled products and service to the worldwide geophysical survey sector. These purpose-built, turn-key, systems incorporate the very latest hardware specifications and are designed and delivered to meet the demanding nature of offshore survey work.

The DA4G™ range consists of a number of options and is backed up with global service and support.

Positioning Systems

The **CodaOctopus F180®**and more recently introduced **CodaOctopus F170™** families apply technology originally developed for the extreme world of motor racing to the marine environment. Modifications

and enhancements have resulted in a simple-to-use, off-the-shelf product that brings accurate positioning and motion data into extreme offshore conditions for precision marine survey applications worldwide. Variants within the F180® series include the F190™, exclusively configured for use 'inland', e.g. within ports and harbors, and the F185™, with enhanced precision positioning to 2 cm accuracy (<1"). Octopus iHeave, an intelligent software product for dealing with long period ocean swell compensation, is fully integrated within the F180® series. The F170™ family is designed with ease of use in mind, they are compact, simple to install and produce accurate position and motion data for the marine industry. Two product variants are available: the F170™ and the F175™. The F175™ allows integration of third-party GNSS systems thus enhancing the accuracy of the outputs and improving the robustness of the solution.

3D Imaging

There are now three products within the real time 3D sonar: the Echoscope®, the Dimension® and the CodaOctopus Underwater Inspections System (UIS).

Our Echoscope® real-time 3D Imaging Sonar represents the Company's most exciting area for growth in the medium term.

Echoscope®, developed over more than 20 years, is a unique, patented technology delivering high resolution 3D images of the underwater environment in real time, with extremely accurate positioning. Comparatively, Echoscope® generates over 100 times more information than the nearest alternatives. Echoscope® is small (around the size of a brief case), connects to a regular laptop and is low cost relative to most naval sonars of lesser performance, and gives significant benefits over other commercially available sonars. Substantial interest has been shown in the product, particularly for port security applications in the United States, and for commercial applications worldwide.

Key applications include:

- harbor defense, where the product is used to inspect vessels and harbor walls below sea level;
- examination of oil and gas installations on the sea-bed;
- location and navigation of areas where underwater construction is being undertaken;
- verification of the effects of dredging a channel in a harbor (for example);
- real time monitoring of moving objects in the water column, typically in construction or surveillance operations;
- forward looking obstacle avoidance, where the product is used to guide a vessel (i.e. surface vessel, Remotely Operated Vehicle or Autonomous Underwater Vehicle) to avoid obstacles; and
- swimmer identification, where the product is used to detect divers for defensive purposes or to find missing persons in water (rescue or recovery services).

We believe that the Echoscope® is unique, and we are unaware of any other product with the capabilities of the Echoscope®. The heightened awareness of terrorist attacks over the last decade has resulted in a

demand for practical, effective and rapid methods of detecting potential threats (such as explosives in harbors or on ship hulls). We believe that the Echoscope® is ideally suited for this task.

The Echoscope® systems will sometimes require additional items of equipment to form a complete solution allowing us to leverage existing products and services, such as motion sensors and imaging processing software, into a wider market, and this in turn offers further opportunity for other products from the portfolio, such as our F180® positioning systems.

Most of the recent breakthroughs in application acceptance and client adoption are through the considerable investment we have made into the application software (CodaOctopus Underwater Survey Explorer) and visualization technology that we have developed. We have developed several patented techniques (rendering techniques) that process the unique 3D image data from the Echoscope® and generate photograph-like images in real time to assist the instant decision making of the operators. In addition, we have successfully created and deployed a real time model tracking algorithm to allow the augmentation of real time sonar data with CGM (Computer Generated Models) for greater operator assistance, efficiency and safety and is particularly useful in laying Accropodes™ or mattresses in underwater construction.

Unlike many competitors, we are fully leveraging the synergy between the Company's hardware and our software that allows us to tailor solutions and provide custom development to our clients for their increased efficiency and commercial gain.

Dimension®

Designed for the ROV market, the Dimension® real time 3D forward looking sonar with CodaOctopus Vantage software offers a step-change view to ROV pilots. With a user-selectable quad-view of the scene in front of the ROV, the pilot can maneuver, navigate and monitor with confidence during zero visibility conditions.

Based on patented Echoscope® technology and industry-leading software, Dimension® provides unparalleled real-time visualization for subsea vehicle applications. Designed for a wide range of ROVs, Dimension® is a unique, true real-time 3D sonar that transforms ROV underwater operations.

For ease of integration the Dimension® sonar is also supplied with the CodaOctopus® Vehicle Integration Module (VIM). The VIM is vehicle mounted and connects directly to the Dimension® sonar providing interfaces to the ROV power, data and control sub-systems.

Using the CodaOctopus Vantage software suite and advanced beamforming techniques, the Dimension® sonar provides the ROV pilot with a unique quad-view for safe navigation and obstacle avoidance purposes. The Vantage quad-view features a conventional plan-view, commonly provided by scanning sonars, along with three additional and separate real-time perspectives of the subsea environment.

The Dimension® is a newly launched product and will take time to gain acceptance in the market place. However, it is currently being evaluated during a number of ongoing operations by companies interested in the Product.

Echoscope® C500

The C500 is based on our patented Echoscope technology and delivers real-time 3D sonar capability in a smaller, lighter, ruggedized form factor with reduced power requirements.

The Echoscope C500 is suitable for ROV and AUV based applications as well as vessel deployments. The unit outputs real-time 3D data at beam widths of 1.1° x 2.1° (375 kHz) and 0.6° x 1.2° (610 kHz).

Fully integrated with our powerful Underwater Survey Explorer software, the C500 can be used with the full range of functionality available including the latest Models+ module allowing dynamic control of sonar augmented 3D models in the 3D Workspace. The C500 allows the acquisition of full real-time 3D data in a time efficient manner.

Our Services

Our Marine Engineering Businesses, Coda Octopus Martech Limited (based in Portland, Dorset, England, United Kingdom) and Coda Octopus Colmek, Inc. (based in Salt Lake City, Utah, USA) operate in the defense space. We provide engineering services to a wide variety of clients in the subsea and defense markets. A significant part of these services are provided to prime and second level defense contractors and are often for prototype productions which lead to long term manufacturing contracts. This arrangement often gives these companies preferred supplier status for long term manufacturing contracts and the obsolescence management for such customers. The engineering capabilities within our Group are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

Coda Octopus Martech Limited ("Martech") – Based in Portland, (Dorset), England, UK)

Martech provides custom design and manufacturing services. It operates in the very specialized niche of high quality design and manufacturing services mainly to the United Kingdom defense and nuclear industries. Its services are provided on a custom sub-contract basis where high quality and high integrity devices are required, but in quite small quantities.

Martech has the requisite accreditation for its business including LRQ accredited to ISO 9001:2008 and Tick-IT Guide Issue 5.5.

An example of Martech's design and engineering services is the development of a ruggedized display unit in military vehicles capable of displaying variables such as wind speed, air temperature and humidity independent of the vehicle's computer.

In the past, the Company has designed products such as an air traffic management software system, military sonar test equipment, and equipment for production testing of sensors used in blood analysis equipment. Contracts ranged in amounts between a few thousand dollars up to approximately a million dollars.

In late 2010 Martech was awarded a significant contract to design and build two pre-production decontamination units which will become ground equipment for a major international military aircraft program. These decontamination units now forms part of the recommended ground equipment for this aircraft.

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

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

Currently Martech is a key provider of various parts of our marine products business and has been assisting in the further development of a number of those products. In this financial year, the Marine Technology Business acquired a Manufacturing and Consolidated Plant in Portland (Dorset), England and this facility will be co-located with Martech operations. The Marine Business has leased these premises to Martech.

Martech is located in modern and technologically advanced premises which is expected to win it more business going forward.

Coda Octopus Colmek, Inc. ("Colmek") Based in Salt Lake City, Utah, USA

Colmek operates in the same specialized niche of high quality design and manufacturing services as Martech but primarily to the US defense sector as well as to the commercial sectors in the US. Its services are also provided on a custom sub-contract basis where high quality and high integrity devices are required.

Colmek is a service provider of deep-ocean and other engineering solutions, particularly in the fields of data acquisition, storage, transmission and display. It has grown and diversified since beginning its operations in 1977 and now provides services and products to a wide range of defense, research and exploration organizations in the US. Colmek designs, manufactures and supports systems that are reliable and effective in multiple military and commercial applications where ruggedness and reliability under

extreme operational conditions are paramount and where lives depend on accurate and precise information.

An indicative example of the type of business conducted by Colmek is the redesign of various components in the Phalanx ship defense systems. The redesign has occurred because of obsolete parts. Colmek has just started a new production contract from these redesign efforts. In the past, Colmek has also been engaged on projects such as the design and production of a pipeline inspection vehicle and helicopter-based mine hunting system incorporating sonar, laser, and acoustic payload configurations. Colmek has also developed hardware and software for a new generation of satellite modems for the commercial markets.

Colmek's products include the following:

Stinger™ family of Rugged Small-Form-Factor PCs

Colmek takes a unique "Total Systems Solutions" approach to meeting customers' requirements for rugged small-form-factor PCs. Typically our competitors try to fit standard products into complicated applications, while Colmek looks at all the requirements and builds the product accordingly. By taking a modular design approach, Colmek can formulate the best total solution for our customer/partner and do so economically. Colmek has successfully deployed Stinger products on Unmanned Aerial Systems (UAS), and shipboard for satellite-based tracking systems.

RhinoTuff™ family of Rugged Touch Screen Computers

The robust RhinoTuff™ rugged touch screen computer is built exclusively for reliable operation in the world's harshest environments. It is modular and user-definable affording maximum flexibility. This all-weather, all terrain, all-in-one PC thrives in a field where the average "tough" computer is simply not tough enough, including, mining and construction sites, oil fields, marine environments, and military battlefields.

In 2014 Colmek acquired two business streams comprising (i) designing, manufacturing and supplying embedded rugged computers sold under the brand names of Thermite® and (ii) the design, development and supply of the Sentiris® AVI video boards. Since the acquisition of the Thermite product it has received orders for this product having a value of $1,060,000.

Rugged Chassis/Enclosures:

The chassis and enclosures offered by Coda Octopus Colmek are fully customizable to military/industrial needs. Colmek is a key supplier on high profile programs including Raytheon's Phalanx Close-In Weapons System (CIWS) and Northrop Grumman's airborne mine hunting sonar AN/AQS-24. We also offer a variety of enclosures technologies.

Other products offered by Colmek include subsea telemetry & data acquisition systems, rugged workstations, analog-to-digital converters and rugged LCD displays.

Item 7: Facilities

Lakeland, Florida, USA. **(Owned by the Group)**

Our corporate offices, which co-locate with our wholly owned subsidiary, Coda Octopus Products, Inc., are located in Lakeland Florida. In 2012, the Company acquired this property consisting of 3 unified condominium units with office space and warehouse/storage and testing facilities totaling 4,154 square feet.

Salt Lake City, Utah, USA. **(Owned by the Group)**

On March 21, 2015 Coda Octopus Colmek completed the purchase of new office, production and R&D Facilities comprising 16,000 square feet in Salt Lake City, Utah for $1,200,000 in cash. These premises were further customized for Colmek's use at a cost of approximately $300,000. Colmek has now moved into its new premises and terminated the lease of its previous premises with effect from September 27, 2015.

Edinburgh, Scotland, United Kingdom.

Offices: Our wholly owned United Kingdom subsidiary, Coda Octopus Products Ltd, leases business premises comprising 4,099 square feet in Edinburgh, United Kingdom. These premises are used as offices. The building is located close to the Port of Leith and the Firth of Forth, which is convenient for conducting trials and demonstrations of our products.

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

R& D Test Facilities (Owned by the Group)

The Company's testing facilities have moved to newly acquired premises in Edinburgh, United Kingdom located immediately adjacent to this business principal place of business. The premises comprising 917 square feet were acquired on February 6, 2015 for a purchase price of £130,000 (equivalent to $199,318)

and have been equipped with an acoustic test tank for the development and testing of our products and are also utilized for our training activities.

Production and Repair Services Facilities

In keeping with its strategy to onward develop its core patented flagship technology (its Real Time 3D Sonar Technology) Coda Octopus Products Ltd has, from 1 September 2015, leased Manufacturing and in Edinburgh comprising 2,450 square feet and located a few hundred yards from the offices at Anderson House. These new facilities have been equipped with a test tank and will be used to manufacture and service our Echoscope® products. Our flagship product is no longer produced in Bergen, Norway, but in Edinburgh, United Kingdom, at this newly leased facility.

The lease is for a period of 3 years and the annual rent is the British Pounds equivalent of $26,950 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations). The rent is fixed for the duration of the lease.

Portland, Dorset, England, UK. **(Owned by the Group)**

Martech leases premises owned by Coda Octopus Products Limited. These premises are located in the Marine Center in Portland, Dorset DT5 1PY, United Kingdom, and comprise 9,890 square feet and were acquired by Coda Octopus Products Limited in September 2013. The building comprises both office space and manufacturing and testing facilities. The lease, which is for a period of 5 years, provides for an annual rent of the equivalent of $51,000 (the rent is stated in British Pounds and is therefore subject to exchange rate fluctuations). These premises gives easy access to marine facilities such as testing vessels etc.

Bergen, Norway.

Our wholly owned Norwegian subsidiary, Coda Octopus R&D AS, leases 2,370 square feet of business premises in a refurbished maritime business center directly on the waterway connected to Bergen harbor. After the move of the production and servicing of the Echoscope® to Edinburgh, UK, the facility now serves as a Research and Development center for hardware development of our flagship product utilizing our purpose-built laboratories.

The lease provides for a rental of the equivalent of $33,959 (the rent is stated in Norwegian Kroners and is therefore subject to exchange rate fluctuations) per annum and expires on May 31, 2018 but may be terminated with 6 months' notice with effect any time on or after December 1, 2016.

With our production capability transferred to Edinburgh, United Kingdom, we are seeking to reduce the size of our facilities in Bergen, Norway, where we still carry on part of our Research and Development works for our core technology.

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

Item 8: Officers, Directors, and Control Persons as of October 31, 2015

A. Officers and Directors:

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

Control persons as of February 17, 2016

- CCM Holdings LLC
- Core Fund LP

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

No director, officer or control person has to the knowledge of the Company been the subject of any of the actions or issues listed under items 1 through 4 above in the last five years.

C. Beneficial Shareholders.

Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

At October 31, 2015 the following persons were recorded as beneficially owning more than ten percent (10%) of the issuer's common stock:

Shareholder	**Number of Common Stock**
CCM Holdings LLC 376 Main Street PO Box 74 Bedminster, NJ 07921 U.S.A. The Company has been advised that Jack Galuchie has voting and dispositive power over the shares held by this entity.	27,247,147
Core Fund L.P. 1500 SW 1st Ave, Suite 910 Portland OR 97201 U.S.A.	16,572,256
The numbers in the above table do not include 9,523,810 shares of common stock issuable in the event of conversion of Debentures at $1.05 per share. It is unlikely that the Debentures will convert at $1.05 given the current trading price of the Company's common stock. A reduction in the conversion price, which may be made as a result of a renegotiation of the Debentures, is likely to increase significantly the numbers of shares issuable upon conversion thereof.	

Item 9: Subsequent Event

On December 15, 2015 the Company purchased the 200 shares of Series A Preferred Stock that were outstanding at the end of the fiscal year ended October 31, 2015 and these have been surrendered and retired. As of the date of this report, the Company has no shares of Series A Preferred Stock outstanding and this class has been eliminated.

On October 30, 2015 the Company and the Senior Secured Debenture Holder entered into an agreement to restructure the Debentures. See pages 14 and 29 above for summary of the material terms of the Restructuring Agreement.

The agreement to convert the Terminal Conversion Premium portion of $3,558,136 into the Company's Common Stock at USD eleven cents per share will take effect from 1 March 2016 and therefore our financial statements as at October 31, 2015 have not taken account of this aspect of the Restructuring

Agreement. Upon consummation of this part of the Restructuring Agreement the Company will issue 32,346,682 shares of Common Stock.

Item 10: Third Party Providers

Promoter:

None

Counsel:

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

Accountant or Auditor:

The auditors of the consolidated group financial statements for the years ending October 31, 2015 and 2014 are:

Frazier & Deeter, LLC
1230 Peach Street, N.E.
Suite 1500
Atlanta, GA 30309

Item 11: Issuer's Certifications.

I, Annmarie Gayle, certify that:

1. I have reviewed this annual report of Coda Octopus Group, Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: February 25, 2016

/s/ Annmarie Gayle
Group CEO



Consolidated Financial Statements
For the Years Ended October 31, 2015 and 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Coda Octopus Group, Inc. (the "Company") as of October 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years ended October 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coda Octopus Group, Inc. as of October 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frazier Deeter, LLC

February 25, 2016
Tampa, Florida

CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets
October 31, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and Cash Equivalents	$ 6,310,694	$ 5,292,427
Short Term Investments	-	3,031
Accounts Receivables	2,063,295	4,031,623
Inventory	3,781,311	4,060,352
Unbilled Receivables	1,479,874	1,228,771
Other Current Assets	319,481	220,323
Prepaid Expenses	126,504	188,875
Total Current Assets	14,081,159	15,025,402
Fixed Assets		
Property and Equipment, net	3,935,520	2,179,617
Other Assets		
Restricted Cash	13,890	17,918
Deferred Tax Asset	-	133,233
Goodwill and Other Intangibles, net	3,849,662	3,835,530
	3,863,552	3,986,681
Total Assets	$ 21,880,231	$ 21,191,700

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

CODA OCTOPUS GROUP, INC.
Consolidated Balance Sheets (Continued)
October 31, 2015 and 2014

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015	2014
CURRENT LIABILITIES		
Accounts Payable, trade	$ 1,032,673	$ 1,389,506
Accrued Expenses and Other Current Liabilities	705,927	812,183
Short Term Loan Payable - Related Party	-	238,842
Loans and Note Payable, current	2,050,930	466,259
Deferred Revenues	495,566	530,581
Total Current Liabilites	4,285,096	3,437,371
LONG-TERM LIABILITIES		
Deferred Tax Liability	35,963	-
Loans and Note Payable, long term	13,302,120	15,051,254
Total Liabilities	17,623,179	18,488,625
STOCKHOLDERS' EQUITY		
Preferred stock, Series A, $.001 par value; 50,000 shares authorized, 200 and 6,287 issued and outstanding, as of October 31, 2015 and 2014, respectively	-	6
Preferred stock, Series C, $.001 par value; 50,000 shares authorized, 1,100 and Nil issued and outstanding, as of October 31, 2015 and 2014, respectively	1	-
Common stock, $.001 par value; 150,000,000 shares authorized, 94,019,213 and 93,919,213 shares issued and outstanding as of October 31, 2015 and 2014, respectively	94,019	93,919
Additional paid-in capital	49,042,664	49,033,759
Accumulated other comprehensive income (loss)	373,516	(101,169)
Accumulated deficit	(45,253,148)	(46,323,440)
Total Stockholders' Equity	4,257,052	2,703,075
Total Liabilities and Stockholders' Equity	$ 21,880,231	$ 21,191,700

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

CODA OCTOPUS GROUP, INC.
Consolidated Statements of Income and Comprehensive Income
For the Years Ended October 31, 2015 and 2014

	2015	2014
Net Revenues	$ 19,234,396	$ 16,446,271
Cost of Revenues	8,893,869	6,360,906
Gross Profit	10,340,527	10,085,365
OPERATING EXPENSES		
Research & Development	998,270	1,128,542
Selling, General & Administrative	7,482,738	5,821,468
Total Operating Expenses	8,481,008	6,950,010
INCOME FROM OPERATIONS	1,859,519	3,135,355
OTHER INCOME (EXPENSE)		
Other Income	358,808	6,326
Interest Expense	(1,044,906)	(1,574,704)
Unrealized loss on investment in marketable securities	(3,031)	(9,719)
Total Other Income (Expense)	(689,129)	(1,578,097)
NET INCOME BEFORE INCOME TAXES	1,170,390	1,557,258
INCOME TAX (EXPENSE) BENEFIT	(100,098)	69,145
NET INCOME	$ 1,070,292	$ 1,626,403
NET INCOME PER SHARE:		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02
WEIGHTED AVERAGE SHARES:		
Basic	93,919,487	93,815,495
Diluted	96,119,487	93,865,495
NET INCOME	$ 1,070,292	$ 1,626,403
Other Comprehensive Income:		
Foreign currency translation adjustment	474,685	173,367
Total Other Comprehensive Income	474,685	173,367
COMPREHENSIVE INCOME	$ 1,544,977	$ 1,799,770

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

CODA OCTOPUS GROUP, INC.
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended October 31, 2015 and 2014

	Preferred Stock Series A		Preferred Stock Series C		Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Deficit	Total
Balance, October 31, 2013	6,287	$ 6	-	$ -	93,776,356	$ 93,776	$ 49,030,396	$ (274,536)	$ (47,949,843)	$ 899,799
Foreign currency translation adjustment	-	-	-	-	-	-	-	173,367	-	173,367
Stock issued in exchange of warrants	-	-	-	-	142,857	143	3,363	-	-	3,506
Net Income	-	-	-	-	-	-	-	-	1,626,403	1,626,403
Balance, October 31, 2014	6,287	6	-	-	93,919,213	93,919	49,033,759	(101,169)	(46,323,440)	2,703,075
Foreign currency translation adjustment	-	-	-	-	-	-	-	474,685	-	474,685
Stock exchange from Series A to Series C	(6,087)	(6)	1,100	1	-	-	5			-
Stock issued for compensation					100,000	100	8,900			9,000
Net Income	-	-	-	-	-	-	-	-	1,070,292	1,070,292
Balance, October 31, 2015	200	$ -	1,100	$ 1	94,019,213	$ 94,019	$ 49,042,664	$ 373,516	$ (45,253,148)	$ 4,257,052

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

CODA OCTOPUS GROUP, INC.
Consolidated Statements of Cash Flows
For the Years Ended October 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,070,292	$ 1,626,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	449,696	236,571
Financing costs	328,520	944,195
Stock compensation	9,000	-
Unrealized loss on investments	3,031	9,719
(Increase) decrease in operating assets:		
Accounts receivable	1,968,328	(1,612,779)
Inventory	279,041	(968,397)
Prepaid expenses	62,371	4,125
Unbilled receivables	(251,103)	(707,933)
Other assets	(99,158)	250,087
Deferred Tax Asset	133,233	(22,566)
Increase (decrease) in operating liabilities:		
Accounts payable and other current liabilities	(701,931)	516,925
Deferred tax liabilities	35,963	-
Deferred revenues	(35,015)	42,216
Net Cash Provided by Operating Activities	3,252,268	318,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,068,053)	(992,100)
Restricted cash	4,028	191
Purchases of intangible assets	(151,678)	(237,866)
Net Cash Used by Investing Activities	(2,215,703)	(1,229,775)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on loans and notes payable	(492,983)	(2,218,000)
Net Cash Used by Financing Activities	(492,983)	(2,218,000)
EFFECT OF CURRENCY EXCHANGE RATE CHANGES ON CASH	474,685	173,367
NET (DECREASE) INCREASE IN CASH	1,018,267	(2,955,842)
CASH AT THE BEGINNING OF THE PERIOD	5,292,427	8,248,269
CASH AT END OF PERIOD	$ 6,310,694	$ 5,292,427
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 716,387	$ 837,936
Cash paid for taxes	$ 27,036	$ -
Common stock issued for warrants	$ -	$ 3,506

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

CODA OCTOPUS GROUP, INC.
Notes to the Consolidate Financial Statements
October 31, 2015 and 2014

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Coda Octopus Group, Inc. (*"we ","us"* "*our company "* or *"Coda"*).

Is a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in Florida, with research and development, sales and manufacturing facilities located in the United Kingdom and Norway. We also have engineering operations in the state of Utah, and the United Kingdom. We hold significant patents relating to our real time 3D sonars and associated software.

The consolidated financial statements include the accounts of Coda Octopus Group, Inc. and our 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 of the Codification's content carries the same level of authority.

b. Cash and Cash Equivalents

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

c. Trade Accounts Receivable

Trade accounts receivable are recorded net of the allowance for doubtful accounts. The Company provides for an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Balances still outstanding after the Company has used reasonable collection efforts are written off though a charge to the valuation allowance and a credit to trade accounts receivable. The allowance for doubtful accounts was $6,500 and $-0- as of October 31, 2015 and 2014, respectively.

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 for 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 four years.

e. Advertising

Coda follows the policy of charging the costs of advertising to expense as incurred, aggregated $4,242 and $8,571 during 2015 and 2014.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

f. Inventory

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

	October 31,	
	2015	2014
Raw materials and parts	$ 2,605,263	$ 2,223,325
Work in progress	54,750	181,965
Demo goods	685,015	728,582
Finished goods	436,283	926,480
Total Inventory	$ 3,781,311	$ 4,060,352

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 costs and earnings in excess of billings and the valuation of goodwill.

h. Revenue Recognition

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

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

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

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

For arrangements that are generated from time and material contracts where there is a signed agreement and approved purchase order in place that specifies the fixed hourly rate and other reimbursable costs to be billed based on material and direct labor hours incurred, revenue is recognized on these contracts based on material and direct labor hours incurred. Revenues from fixed-price

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Revenue Recognition (continued)

contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred (materials and direct labor hours) to date to estimated total services (materials and direct labor hours) for each contract. This method is used as expenditures for direct materials and labor hours are considered to be the best available measure of progress on these contracts. Losses on fixed-price contracts are recognized during the period in which the loss first becomes apparent based upon costs incurred to date and the estimated costs to complete as determined by experience from similar contracts. Variations from estimated contract performance could result in adjustments to operating results.

i. Concentrations of Risk

Credit losses, if any, have been provided for in the financial statements and are based on management's expectations. The Company's accounts receivable are subject to potential concentrations of credit risk, 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.

The Company's bank deposits are held with financial institutions both within and without 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. However, no assurance can be provided that access to the Company's cash would not be impacted by adverse economic conditions in the financial markets.

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

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheets. These amounts are stated on the consolidated balance sheets as Unbilled Receivables of $1,479,874 and $1,228,771 as of October 31, 2015 and 2014, respectively.

Our Deferred Revenue of $495,566 and $530,581 as of October 31, 2015 and 2014, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations upon completing a sale – elaborated further in the last paragraph of the Note.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheets. These amounts are stated on the balance sheets as a component of Deferred Revenue of $3,437 and $68,860 as of October 31, 2015 and 2014, respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales, with these amounts amortized over 12 months, our stated warranty period, from the date of sale. These amounts are stated on the balance sheets as a component of Deferred Revenue of $216,070 and $405,156 as of October 31, 2015 and 2014, respectively.

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 system for income tax purposes versus straight line depreciation used for book purposes and from the utilization of net operating loss carry-forwards.

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

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

l. Intangible Assets

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

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. At the end of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. There were no impairment charges recognized during the years ended October 31, 2015 and 2014.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

m. Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair values because of the short-term nature of these instruments. The aggregate carrying amount of the notes payable approximates fair value as they bear interest at a market interest rate based on their term and maturity. 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 revenue and expenses are translated at weighted average exchange rates in effect during the period and stockholders' equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income or (loss) as may be appropriate. Foreign currency transaction gains and losses are included in the statement of income.

o. Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the years ended October 31, 2015 and 2014, 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 and Norway tax credits related to our qualified research and development expenditures.

Tax credits are classified as a reduction of research and development expense. During the years ended October 31, 2015 and 2014, respectively, we did not qualify for any tax credits.

q. Stock Based Compensation

We recognize the expense related to the fair value of stock-based compensation awards within the consolidated statements of income and comprehensive income. We use the fair value method for equity instruments granted to non-employees and use the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered. For the years ended October 31, 2015 and 2014, we have included compensation expense (when applicable) for unvested stock-based compensation awards that were outstanding as of October 31, 2015 and 2014, for which the requisite service was rendered during the year.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

r. Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Comprehensive income includes gains and losses on foreign currency translation adjustments and is included as a component of stockholders' 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. Diluted earnings per share include the dilutive effect, if any, from the potential exercise of stock options and warrants.

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:

	October 31,	
Fiscal Period	2015	2014
Numerator:		
Earnings from Continuning Operations	$ 1,070,292	$ 1,626,403
Denominator:		
Basic weighted average common shares outstanding	93,919,487	93,815,495
Conversion of Series C Preferred Stock	2,200,000	-
Dilutive effect of stock options	-	50,000
Diluted outstanding shares	96,119,487	93,865,495
Earnings from continuing operations		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02

t. Liquidity

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

For the year ended October 31, 2015, the Company had:

Cash and cash equivalents	$ 6,310,694
Working capital	9,796,063
Total Stockholders' equity	4,257,052
Accumulated deficit	(45,253,148)
Net Income	1,070,292
Positive cash flows from operations	3,252,268

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

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

t. Liquidity (continued)

If the Company's financial resources from operations are insufficient, the Company will require additional financing in order to execute its operating plan and continue as a going concern. The Company may not be able to obtain the necessary additional capital on a timely basis or on commercially acceptable terms, or at all. In any of these events, the Company may be unable to repay its debt obligations (including approximately $15 million under senior debentures due through November 2017, or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

u. Restricted Cash

The Company is required to have a specific cash account to guarantee a lease in Norway whereby the lessor has access to withdraw on the account upon default on the lease. The amount required to be held in the account was $13,890 and $17,918 as of October 31, 2015 and 2014, respectively, and is shown as a long-term asset as the restricted cash balance is expected to be maintained through the life of the lease.

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL

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

The identifiable intangible assets acquired and their carrying value at October 31, 2015 and 2014 is as follows:

	October 31, 2015	October 31, 2014
Customer relationships (weighted average life of 10 years)	$ 919,503	$ 919,503
Non-compete agreements (weighted average life of 3 years)	198,911	198,911
Patents and other	281,706	130,028
Total identifiable intangible assets - gross carrying value	1,400,120	1,248,442
Less: accumulated amortization	(932,566)	(795,020)
Total intangible assets, net	$ 467,554	$ 453,422

Future estimated annual amortization expenses as of October 31, 2015 as follows:

Years Ending October 31,	Amount
2016	$ 123,912
2017	72,458
2018	40,595
2019	40,595
Thereafter	189,994
Totals	$ 467,554

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to $137,546 and $91,308 for the years ended October 31, 2015 and 2014, respectively. Goodwill is not being amortized.

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL (Continued)

As a result of the acquisitions of Coda Octopus Martech, Ltd., Coda Octopus Colmek, Inc., Coda Octopus Products, Ltd., and Dragon Design, Ltd., the Company has goodwill in the amount of $3,382,108 as of October 31, 2015 and October 31, 2014. The carrying amount of goodwill as of October 31, 2015 and 2014, respectively are recorded below:

	2015	2014
Breakout of Goodwill:		
Coda Octopus Colmek, Inc.	$ 2,038,669	$ 2,038,669
Coda Octopus Products, Ltd	62,315	62,315
Coda Octopus Martech, Ltd	998,591	998,591
Coda Octopus Martech, Ltd (from Dragon Design Ltd Acquisition)	282,533	282,533
Total Goodwill	$ 3,382,108	$ 3,382,108

Considerable management judgment is necessary to estimate fair value of goodwill. We enlisted the assistance of an independent valuation consultant to determine the values of our intangible assets and goodwill at the dates of acquisition and by management for the dates thereafter.

Based on various market factors and projections used by management, actual results could vary significantly from management's estimates.

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

The goodwill assets of the Company arise chiefly from the acquisition of two wholly owned subsidiaries that comprise the Company's services segments – Colmek and Martech. The goodwill impairment evaluation was conducted at the end of the financial year 2015 and management's opinion is that the carrying values are reasonable.

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

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31:

	2015	2014
Buildings	$ 2,255,293	$ 1,087,322
Land	200,000	-
Office machinery and equipment	1,805,936	1,548,966
Furniture, fixtures and improvements	899,220	456,108
Totals	5,160,449	3,092,396
Less: accumulated depreciation	(1,224,929)	(912,779)
Property and Equipment - Net	$ 3,935,520	$ 2,179,617

Depreciation expense for the years ended October 31, 2015 and 2014, was $312,150 and $145,263, respectively.

NOTE 5 - OTHER CURRENT ASSETS

Other current assets consisted of the following at October 31, 2015 and 2014:

	2015	2014
Deposits	$ 20,292	$ 94,098
Other receivables	122,681	47,341
Value added tax (VAT) receivable	176,508	78,884
Total Other Current Assets	$ 319,481	$ 220,323

NOTE 6 – CAPITAL STOCK

Common Stock

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

On July 24, 2014 the Company issued 142,857 shares of common stock to Core Fund LLP in respect of previous contractual commitments assumed in October 2010. Core Fund LLP surrendered its Warrants (in or around October 2010) in exchange for shares of Common Stock in connection with an offer which the Company made to the group of purchasers who between April and May 2007 purchased 15,000,000 shares of common stock and 7,500,000 Series A Warrants and 7,500,000 Series B Warrants. Although instructions were provided then to our Transfer Agents, these shares were never issued. The stock was issued at $0.025 per share, which was the issue price at the time the warrants were surrendered.

NOTE 6 – CAPITAL STOCK (Continued)

Common Stock (continued)

During the year ended October 31, 2015, the Company issued 100,000 shares of our common stock to a non-executive director as remuneration for being a member of the Company's Board of Directors. These shares were valued at their approximate trading price of $9,000 which was charged to operations.

The Company has issued and outstanding 94,019,213 shares of common stock as of October 31, 2015 and 93,919,213 outstanding as of October 31, 2014.

Preferred Stock

The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of $0.001 per share. We have designated 50,000 preferred shares as Series A preferred stock and 50,000 preferred shares as Series C preferred stock. The remaining 4,900,000 shares of preferred stock are not designated.

Series A Preferred Stock

As of October 31, 2015 and October 31, 2014, the Company had 200 and 6,287 shares of Series A Preferred Stock in issue, respectively.

Pursuant to an Exchange Agreement concluded on June 30, 2015 between the Company and the Holder of 6,087 units of Series A Preferred, these units of Series A Preferred were cancelled, retired, and a new Series C preferred stock was created of which 1,100 units were issued, each unit having a stated value equal to $1,000. Series C Preferred Stock is convertible by the Holder or the Company subject to the Conversion Conditions being met and, if not converted, are redeemable at a fixed price of $1,100,000 on or before December 31, 2016. Series C preferred stock is non dividend bearing and has no voting rights.

Series B Preferred Stock

On June 30, 2015, the Company cancelled the Series B Preferred Stock as a class.

Series C Preferred Stock

On or around June 30, 2015 the Company created a new class of Series C Preferred Stock.

The Series C Preferred stock has a par value of $0.001 per share and a stated value equal to $1,000. The Series C Preferred stock does not have any voting rights and no dividends are payable on these shares but the holder is entitled to receive value prior to holders of common stock in case of liquidating the Company.

At the date of this report there are 1,100 shares of Series C Preferred Stock issued and outstanding.

NOTE 7 – STOCK OPTIONS

Transactions involving stock options are summarized as follows:

Stock Options

	October 31, 2015		October 31, 2014	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding beginning of the year	50,000	$ 1.05	50,000	$ 1.05
Granted during the year	-		-	
Expired/cancelled during the year	(50,000)		-	
Outstanding at end of year	-	$ 1.05	50,000	$ 1.05
Exercisable at end of year	-	$ 1.05	50,000	$ 1.05

NOTE 8 - INCOME TAXES

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

The Company follows the provisions of Accounting Standards Codification 740, *Income Taxes* (ASC 740). ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of ASC 740, the Company performed a review of its material tax positions in accordance with the measurement standards established by ASC 740. At the adoption date of July 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized. There has been no significant change in the unrecognized tax benefit during the years ended October 31, 2015 and 2014. The Company also estimates that the unrecognized tax benefit will not change significantly within the next twelve months.

There are no material tax positions included in the accompanying consolidated financial statements at October 31, 2015 and 2014 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company uses an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the

NOTE 8 - INCOME TAXES (Continued)

deferred tax asset to the amount that will more likely than not be realized. Income tax expense is the current income tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate $15,286,047 as of October 31, 2015, which expire beginning in 2026 through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the U.S. tax carry-forward is approximately $5,961,000 as October 31, 2015. The Company has provided a valuation reserve against the full amount of the net operating loss benefit. For the years ended October 31, 2015 and 2014, respectively the Company had an Alternative Minimum Tax of $31,389 and $27,036 due.

For income tax reporting purposes, the Company's aggregate UK and Norway unused net operating losses approximate $1,377,706 with no expiration. The deferred tax asset related to the UK and Norway tax carry-forwards is approximately $192,151. The Company has provided a valuation reserve against a portion of the net operating loss benefit, because in the opinion of management which is based upon the earning history of the Company, it is more likely than not that the benefits allowed for will not be fully realized. Those remaining and not allowed for are recorded by the Company and are expected to be used in the near future.

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

Net operating loss carry-forward benefit	$ 6,777,151	$ 6,777,151
Valuation allowance	(6,813,114)	(6,643,918)
Net deferred tax (liability) asset	$ (35,963)	$ 133,233

The company did receive tax refunds, net of any benefits for financial purposes in two of its foreign subsidiaries as of the year ended October 31, 2014 as follows:

Coda Octopus Products Ltd. - UK	$ 51,325
Coda Octopus R&D Ltd - UK	44,856
Total income tax refunds	$ 96,181

The Company did not incur any income tax expense for financial purposes in its U.S. entities and other foreign entities not included above as we have been able to use net operating loss carry-forwards and other timing differences during the current and prior year to offset any tax liabilities in the various tax jurisdictions. The use of these income tax benefits in the current and prior year have been adjusted for and offset by a valuation allowance as noted above. The Company still believes the future use and benefit of these tax assets is still uncertain and may not be realized.

NOTE 8 - INCOME TAXES (Continued)

The Company's income tax returns are subject to audit by taxing authorities for the years beginning November 1, 2011.

A reconciliation between the amounts of income tax benefit determined by applying applicable U.S. statutory tax rate to pre-tax income is as follows:

Federal statutory rate of 35%	$ 374,602	$ 470,448
Alternative Mininium Tax	30,953	27,036
Foreign tax expense (benefit)	-	(96,181)
Use of NOL losses on consolidated tax returns	(374,602)	(470,448)
Total income tax expense	$ 30,953	$ (69,145)

NOTE 9 - LOANS AND NOTES PAYABLE

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

	2015	2014
On February 21, 2008 the Company issued a convertible senior secured debenture with a face value of $12million ("Secured Debenture"). The Secured Debenture under its original terms matured on February 21, 2015. The Secured Debentures term has been extended under a Deed of Amendment dated October 31, 2015 and the revised maturity date is November 1, 2017. The Secured Debentures accrues interest of 8.5% annually payable within 60 days of the end of the Company's financial quarters. The Company redeemed 20 Debentures (each having a face value of $100,000) on or around September 18, 2014. The revised face value of the Debentures currently is $10 million. During the term, the Secured Debenture is convertible into shares of our common stock, at the option of the Debenture holder, at a conversion price of $1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above $2.50 between the second and third anniversaries of this agreement; $2.90 between the third and fourth anniversaries of this agreement; and $3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on the Over The Counter Bulletin Board or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price. Balance includes principal, accrued interest and accrued terminal conversion balance.	$ 14,940,258	$ 14,611,738
The Company had a line of credit secured by the accounts receivable and inventory of a subsidiary. The line of credit matured May 1, 2015. Interest floated between 4% and Prime plus 0.75%, whichever was higher. The line of credit was paid off on April 30, 2015.	-	413,491
The Company has a 10 year secured mortgage for $527,675, secured by a building in the UK that requires monthly principal payments of $4,397 along with interest at 2.75%, matures October 2023. The conversion rate varies according to exchange rates fluctuations.	412,792	492,284
Total	15,353,050	15,517,513
Less: current portion	(2,050,930)	(466,259)
Total Long-Term Loans and Notes Payable	$ 13,302,120	$ 15,051,254

NOTE 9 - LOANS AND NOTES PAYABLE (Continued)

A reconciliation of the convertible senior secured debenture is as follows:

Bond Principal	$ 10,000,000	$ 10,000,000
Accrued Interest	1,382,122	1,191,816
Accrued Terminal Conversion Premium	3,558,136	3,419,922
Total Bond Payable	$ 14,940,258	$ 14,611,738

Principal maturities as of October 31, 2015 are as follows:

2016	$ 2,050,930
2017	12,991,234
2018	50,976
2019	50,976
Thereafter	208,934
Totals	$ 15,353,050

NOTE 10 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) consists of foreign currency translation adjustments. Total other comprehensive income (loss) was $474,685 and $173,367 for the years ended October 31, 2015 and 2014, respectively.

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

Balance, beginning of year	$ (101,169)	$ (274,536)
Total other compehensive income (loss) for the year - foreign currency translation adjustment	474,685	173,367
Balance, end of period	$ 373,516	$ (101,169)

NOTE 11 - CONCENTRATIONS

Significant Customers

During the year ended October 31, 2015, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenues from these customers were $6,723,176, or 35% of net revenues during the period. Total accounts receivable from these customers at October 31, 2015 were $617,066 or 30% of accounts receivable.

During the year ended October 31, 2014, the Company had one customer from whom it generated sales greater than 10% of net revenues. Revenues from this customer were $4,544,890, or 27.6% of net revenues during the year. Total accounts receivable from this customer at October 31, 2014 was $1,653,797 or 41% of accounts receivable.

Limited Suppliers

We are exposed to a concentration risk in our supply chain for our key product, the Echoscope. There is a limited pool of suppliers for some of our key components and other components are subject to obsolescence risks due to the age of the technology.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Company's U.S. subsidiaries maintain a matching 401(k) retirement plan. The plan allows the Company to make matching contributions of 10 cents per dollar of employee contributions. U.S. employees who have at least nine months of service with the Company are eligible. In addition, the Company's UK subsidiaries operate pension schemes which provide for the payment of the full contribution by the Company. These schemes in the UK operate on a defined contribution money purchase basis and the contributions are charged to operations as they arise. Finally, the Company is obligated to provide pension funding according to Norwegian legislation for its subsidiary located in Norway. The Company has an arrangement that fulfills this requirement. Employee benefit costs for the years ended October 31, 2015 and 2014, respectively were $75,695 and $48,821, respectively.

NOTE 13 - OPERATING LEASES

The Company occupies various office and warehouse facilities pursuant to both term and month-to-month leases. The leases expire at various times through February 28, 2017. The following schedule summarized the future minimum lease payments on the term operating leases:

Years Ending October 31,	Amount
2016	$ 170,959
2017	100,921
2018	43,060
Totals	$ 314,940

Rent expense for the years ended October 31, 2015 and 2014, was $365,184 and $357,697, respectively

NOTE 14 - RELATED PARTY TRANSACTIONS

During the 2014 fiscal year, a Company officer provided Coda Octopus Martech with a short term loan of £144,096 (the equivalent of $238,842) for working capital purposes. The loan accrued interest at 4.5% per annum. During the 2015 financial year, Coda Octopus Martech repaid £145,011 which is the equivalent of $222,333 using the exchange rate at the balance sheet date and includes £916 in interest, which is equivalent of $1,404 using the exchange rate at the balance sheet date. This amount has been repaid in full.

As part of the Exchange Agreement (see Note 6), the Company agreed to pay the Holder of the Series A Preferred Stock $350,000, of which $150,000 is accrued and recorded as a component of Accrued Expenses and Other Current Liabilities on the balance sheets as of October 31, 2015.

NOTE 15 - SEGMENT ANALYSIS

We are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations. Coda Octopus Martech and Coda Octopus Colmek operate as contractors, and the balance of our operations are comprised of product sales.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate 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 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 for the years ended October 31, 2015 and 2014 respectively.

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

* United States
* Europe
* Australia

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 which have been removed upon consolidation and for the purposes of the information shown below.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place for the years ended October 31, 2015 and 2014 respectively:

NOTE 15 - SEGMENT ANALYSIS (Continued)

	Marine Technology Business (Products)	Marine Engineering Business (Services)	Overhead	Total
Fiscal Year 2015				
Revenues from External Customers	$ 9,772,151	$ 9,462,245	$ -	19,234,396
Cost of Revenues	3,647,422	5,246,447	-	8,893,869
Gross Profit	6,124,729	4,215,798	-	10,340,527
Research & Development	998,270	-	-	998,270
Selling, General & Administrative	3,856,809	2,877,601	748,328	7,482,738
Operating Income (Loss)	1,269,650	1,338,197	(748,328)	1,859,519
Other Income (Expense)				
Other Income	358,609	117	82	358,808
Interest Expense	(503,909)	(285,319)	(255,678)	(1,044,906)
Unrealized loss on sale of investment in marketable securities	-	-	(3,031)	(3,031)
Total other income (expense)	(145,300)	(285,202)	(258,627)	(689,129)
Income (Loss) before income taxes	1,124,350	1,052,995	(1,006,955)	1,170,390
Income tax refund (expense)	(76,051)	(24,047)	-	(100,098)
Net Income (Loss)	$ 1,048,299	$ 1,028,948	$ (1,006,955)	$ 1,070,292
Supplemental Disclosures				
Total Assets	$ 11,674,637	$ 10,072,824	$ 132,770	$ 21,880,231
Total Liabilities	1,477,885	718,940	15,426,354	17,623,179
Revenues from Intercompany Sales - eliminated from sales above	2,665,615	629,629	1,150,997	4,446,241
Depreciation and Amortization	182,625	254,076	12,995	449,696
Purchases of Long-lived Assets	368,237	1,851,494	-	2,219,731

NOTE 15 - SEGMENT ANALYSIS (Continued)

	Marine Technology Business (Products)	Marine Engineering Business (Services)	Overhead	Total
Fiscal Year 2014				
Revenues from External Customers	$ 9,387,525	$ 7,058,746	$ -	$ 16,446,271
Cost of Revenues	2,473,470	3,887,436	-	6,360,906
Gross Profit	6,914,055	3,171,310	-	10,085,365
Research & Development	1,128,542	-	-	1,128,542
Selling, General & Administrative	3,112,318	2,036,461	672,689	5,821,468
Operating Income (Loss)	2,673,195	1,134,849	(672,689)	3,135,355
Other Income (Expense)				
Other Income	5,388	938	-	6,326
Interest Expense	(542,842)	(514,601)	(517,261)	(1,574,704)
Unrealized gain on sale of investment in marketable securities	-	-	(9,719)	(9,719)
Total other income (expense)	(537,454)	(513,663)	(526,980)	(1,578,097)
Income (Loss) before income taxes	2,135,741	621,186	(1,199,669)	1,557,258
Income tax refund (expense)	92,937	(23,792)	-	69,145
Net Income (Loss)	$ 2,228,678	$ 597,394	$ (1,199,669)	$ 1,626,403
Supplemental Disclosures				
Total Assets	$ 11,336,875	$ 9,745,414	$ 109,411	$ 21,191,700
Total Liabilities	2,061,140	1,600,629	14,826,856	18,488,625
Revenues from Intercompany Sales - eliminated from sales above	2,295,145	570,811	1,468,201	4,334,157
Depreciation and Amortization	115,196	108,334	13,041	236,571
Purchases of Long-lived Assets	629,941	349,292	12,867	992,100

NOTE 15 - SEGMENT ANALYSIS (Continued

	USA	Europe	Australia	Total
External Revenues by Geographic Locations				
Year Ended October 31, 2015	$ 9,969,839	$ 8,308,080	$ 956,477	$ 19,234,396
Year Ended October 31, 2014	$ 7,517,882	$ 8,709,751	$ 218,638	$ 16,446,271

NOTE 16 - SUBSEQUENT EVENT

Series A Preferred Stock

On December 15, 2015 the Company purchased the 200 shares of Series A Preferred Stock that were outstanding at the end of the fiscal year ended October 31, 2015 and these have been surrendered and retired. As of the date of this report, the Company has no shares of Series A Preferred Stock outstanding and this class has been eliminated.

Restructuring Agreement

The Company and the Senior Secured Debenture Holder have reached an agreement for the restructuring of the Senior Secured Debentures.

Extension of Maturity Date from August 31, 2016 to November 1, 2017: The parties have agreed to extend the maturity date of the Senior Secured Debentures with effect from October 30, 2015 to November 1, 2017 in exchange for the covenants and undertakings of the Company set out below.

Reduction of the Principal Amount of Loan Outstanding: the Company has covenanted to repay $2,000,000 of the principal amount outstanding under the Senior Secured Debentures. This amount will be paid over 10 months, with the first payment due on March 31, 2016. This has been reflected as a current liability on the financials.

Covenant to return to SEC Reporting: the Company has also covenanted to undertake the necessary steps to return to SEC reporting no later than 12 months from March 1, 2016.

Conversion of the portion representing the Terminal Conversion Premium into Common Stock: The Company and the Senior Secured Debenture Holder has also agreed to convert a part of the Company's indebtedness under the Loan Note Instrument into the Company's Common Stock. In this connection, the Parties have agreed to apply the portion representing the Terminal Conversion Premium outstanding at the date of the Agreement and being $3,558,136 into the Company's Common Stock at an exercise price of $0.11 with effect from March 1, 2016. This will result in the Company issuing 32,346,682 shares of Common Stock. This takes effect from March 1, 2016 and our financial statements as of October 31, 2015 have not been adjusted to take into account this conversion.

Failure to comply with the terms of the Deed of Amendment constitutes an event of default that would result in, amongst other things, an acceleration of the Company's obligations under the Senior Debentures.