

Skkynet Cloud Systems, Inc.  
Form 10-Q  
June 14, 2018

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended April 30, 2018**

**OR**

**“ TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934**

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

Commission File Number **000-54747**

**SKKYNET CLOUD SYSTEMS INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of incorporation  
or organization)

**45-3757848**  
(IRS Employer Identification No.)

**2233 Argentia Road Suite 306. Mississauga, Ontario, Canada L5N 2X7**

(Address of principal executive offices)

**(888) 628-2028**

(Issuer's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

Indicate by check mark whether the Company is a large accelerated filer, an accelerated file, non-accelerated filer, or a smaller reporting company.

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filed         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          | Emerging growth company   | <input checked="" type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As June 14, 2018, there were 51,343,311 shares of Common Stock of the issuer outstanding.



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## FORWARD LOOKING STATEMENTS

Statements made in this Form 10-Q that are not historical or current facts are forward-looking statements. These statements often can be identified by the use of terms such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate,” “approximate” or “continue,” or the negative thereof. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management’s best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties, and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. Among the factors that could cause actual results to differ materially from the forward-looking statements are the following: the Company’s ability to obtain necessary capital, the Company’s ability to meet anticipated development timelines, the Company’s ability to protect its proprietary technology and knowhow, the Company’s ability to establish a global market, the Company’s ability to successfully consummate future acquisitions, and such other risk factors identified from time to time in the Company’s reports filed with the Securities and Exchange Commission, including those filed with this Form 10-Q quarterly report. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

Table of Contents**PART I****ITEM 1: FINANCIAL STATEMENTS**

**SKKYNET CLOUD SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|  | April 30, 2018<br>(Unaudited) | October 31,<br>2017 |
|--|-------------------------------|---------------------|
| <b>ASSETS</b>  |                               |                     |
| Current Assets:  |                               |                     |
| Cash and cash equivalents  | \$ 537,815                    | \$ 582,671          |
| Accounts receivable  | 257,287                       | 147,174             |
| Inventory  | 2,742                         | 2,634               |
| Prepaid  | 30,032                        | 19,528              |
| Total current assets   | 827,876                       | 752,007             |
| Property and equipment, net of accumulated depreciation of \$82,726 and \$82,271 respectively  | 4,703                         | 961                 |
| Other assets   | 16,852                        | 5,996               |
| Total Assets   | \$ 849,431                    | \$ 758,964          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                     |
| Current Liabilities:   |                               |                     |
| Accounts payable and accrued expenses  | \$ 85,775                     | \$ 56,653           |
| Accrued liabilities – related party  | 33,372                        | 29,987              |
| Deferred revenue   | 151,246                       | 103,204             |
| Total current liabilities  | 270,393                       | 189,844             |
| Total liabilities  | 270,393                       | 189,844             |
| Stockholders' Equity:  |                               |                     |
| Preferred stock; \$0.001 par value, 5,000,000 shares authorized, 5,000 shares issued and outstanding, respectively                       | 5                             | 5                   |
| Series B Preferred convertible stock: \$0.001 par value, 500,000 shares authorized, 193,661 issued and 193,661 outstanding, respectively | 193,661                       | 193,661             |
| Common stock; \$0.001 par value, 70,000,000 shares authorized, 51,343,311 and 51,287,266 shares issued and outstanding, respectively     | 51,344                        | 51,288              |
| Additional paid-in capital   | 5,617,763                     | 5,240,833           |

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|  |             |             |
|--|-------------|-------------|
| Accumulative other comprehensive loss      | 3,601       | (60,487)    |
| Accumulated deficit                        | (5,287,336) | (4,856,180) |
| Total shareholders' equity                 | 579,038     | 569,120     |
| Total Liabilities and Stockholders' Equity | \$ 849,431  | \$ 758,964  |

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

Table of Contents**SKKYNET CLOUD SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(Unaudited)**

|   | <b>Three Months Ended April 30,</b> |              | <b>Six Months Ended April 30,</b> |              |
|---|-------------------------------------|--------------|-----------------------------------|--------------|
|   | <b>2018</b>                         | <b>2017</b>  | <b>2018</b>                       | <b>2017</b>  |
| Revenue   | \$ 307,911                          | \$ 378,551   | \$ 693,817                        | \$ 663,620   |
| Direct material costs   | 10,622                              | 17,351       | 24,736                            | 27,622       |
| Gross Profit  | 297,289                             | 361,200      | 669,081                           | 635,998      |
| Operating Expenses:   |                                     |              |                                   |              |
| General & administrative  | 538,923                             | 536,665      | 1,060,566                         | 1,050,518    |
| Depreciation and amortization   | 125                                 | 171          | 251                               | 341          |
| Loss from operations  | (241,759)                           | (175,636)    | (391,736)                         | (414,861)    |
| Other Income (Expenses):  |                                     |              |                                   |              |
| Loss on settlement of liabilities   | (39,193)                            | --           | (39,193)                          | --           |
| Currency exchange   | 20,233                              | 11,589       | (227)                             | 7,084        |
| Total other income (expenses)   | (18,960)                            | 11,589       | (39,420)                          | 7,084        |
| Net loss before tax   | (260,719)                           | (164,047)    | (431,156)                         | (407,777)    |
| Tax   | --                                  | (175)        | --                                | (2,007)      |
| Net loss after tax  | (260,719)                           | (164,222)    | (431,156)                         | (409,784)    |
| Preferred dividends   | (2,905)                             | (2,905)      | (5,810)                           | (5,810)      |
| Net loss to common shareholders   | (263,624)                           | (167,127)    | (436,966)                         | (415,594)    |
| Foreign currency translation adjustment   | 27,763                              | 5,245        | 64,088                            | 5,665        |
| Comprehensive (loss)  | \$ (235,861)                        | \$ (161,882) | \$ (372,878)                      | \$ (409,929) |
| Net loss per common share attributable to common stockholders (basic and diluted) | \$ (0.01)                           | \$ (0.00)    | \$ (0.01)                         | \$ (0.01)    |
| Weighted average common shares outstanding (basic and diluted):                   | 51,318,229                          | 50,969,607   | 51,302,714                        | 50,949,123   |

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



Table of Contents**SKKYNET CLOUD SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|   | <b>Six Months Ended April 30,</b> |                 |
|---|-----------------------------------|-----------------|
|   | <b>2018</b>                       | <b>2017</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                   |                 |
| Net loss  | \$ (431,156)                      | \$ (409,784)    |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                   |                 |
| Depreciation and amortization expense   | 251                               | 341             |
| Option based compensation   | 205,097                           | 258,037         |
| Loss on settlement of accrued liabilities   | 39,193                            | --              |
| Changes in operating assets and liabilities:  |                                   |                 |
| Accounts receivable   | (110,113)                         | (75,083)        |
| Accounts payable and accrued expenses   | 29,122                            | 11,791          |
| Inventory   | (108)                             | 262             |
| Accrued liabilities – related parties   | 136,081                           | 144,009         |
| Prepaid and other assets  | (21,360)                          | (570)           |
| Deferred income   | 48,042                            | 45,386          |
| <b>NET CASH (USED IN) OPERATING ACTIVITIES</b>  | <b>(104,951)</b>                  | <b>(25,611)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                   |                 |
| Common stock sold for cash  | --                                | 256,300         |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>   | <b>--</b>                         | <b>256,300</b>  |
| Effect of exchange rate changes on cash   | 60,095                            | 5,400           |
| Net increase (decrease) in cash   | (44,856)                          | 236,089         |
| Cash, beginning of period   | 582,671                           | 266,860         |
| Cash, end of period   | \$ 537,815                        | \$ 502,949      |
| <b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>  |                                   |                 |
| Interest paid   | \$ --                             | \$ --           |
| Income taxes paid   | \$ --                             | \$ --           |
| <b>NON-MONETARY TRANSACTIONS</b>  |                                   |                 |
| Conversion of accrued commissions to equity- related parties                              | \$ 132,696                        | \$ 36,604       |

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



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**SKKYNET CLOUD SYSTEMS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION**

Skkynet Cloud Systems, Inc. (“Skkynet” or “the Company”) is a Nevada corporation formed on August 31, 2011 and headquartered in Toronto, Canada. Skkynet operates its business through its wholly-owned subsidiaries Cogent Real-Time Systems, Inc. (“Cogent”), Skkynet Corp. (Canada), Skkynet, Inc. (USA) and Skkynet Japan (Ltd.) (Japan). Skkynet was formed primarily for the purpose of taking the existing business lines of Cogent and its current and future customers and integrating these businesses with Cloud based systems. We also intend to expand the areas of business activity to which the kinds of products and services we provide are applied.

On November 1, 2014, the Company acquired Skkynet Japan Ltd. (formerly NiC Corporation) as a wholly owned subsidiary. On February 1, 2015, the Company formed a wholly owned US subsidiary Skkynet, Inc., and a wholly owned Canadian subsidiary Skkynet Corp.

On July 30, 2015, the Company designated 500,000 shares of the preferred stock as Series B Convertible preferred. The Series B shares have a par value of \$0.001 and issue value of \$1.00 per share. The series B is convertible by the holder into common stock at \$1.35 per share. The Company may, any time at its option, redeem the Series B shares at their stated value. The Series B preferred shares hold a 6% per annum cumulative dividend. On July 30, 2015, the Company issued 193,661 shares of Series B convertible preferred stock to three related parties in exchange for the outstanding notes payable and accrued interest of \$193,661. Dividends are not paid. The Company has accounted for \$5,810 in Series B dividends which increases the loss to common shareholders from \$431,156 to \$436,966 for the six month period ended April 30, 2018. As of April 30, 2018, the aggregate arrearages in cumulative preferred dividends was approximately \$31,955 equating to \$0.165 per share.

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (the “SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s October 31, 2017 Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements

for the most recent fiscal year end October 31, 2017 as reported on Form 10-K, have been omitted.

**NOTE 2 - RELATED PARTY TRANSACTIONS**

On January 1, 2012 and April 15, 2012, the Company and its subsidiary Cogent entered into employment agreements with four of its officers and directors. As a result of these agreements the Company has accrued compensation for each of the individuals. In addition, the Company is accruing director compensation at the rate of \$2,500 per director per month. As of April 30, 2018, the accrued liability for compensation was converted to common stock and options.

On January 11, 2018 the Company modified the conversion price of 815,000 options which had been granted to Vice President of Marketing and Sales on August 22, 2014. The modification extended the options for 10 years, reduced the conversion price per option from \$1.20 to \$0.40 per share and increased the fair value of the options by \$3,720 to be amortized over the term of the option with no changes to the vesting of the options.

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On January 31, 2018 and April 30, 2018, the Officers and directors of the Company elected to forgo their accrued compensation for the six months ended April 30, 2018 in exchange for shares of common stock and options. The \$132,696 of accrued compensation was exchanged for 248,500 options granted with a value of \$140,061 and 56,111 shares of common stock were exchanged for \$24,609 of accrued compensation.

|                     | <b>Accrued<br/>compensation</b> | <b>Options Issued<br/>for accrued<br/>compensation</b> | <b>Common stock<br/>issued for<br/>accrued<br/>compensation</b> |
|---------------------|---------------------------------|--|---|
| Andrew Thomas       | \$ 33,583                       | 78,100   | --  |
| Paul Benford        | \$ 22,252                       | 50,900   | --  |
| Paul Thomas         | \$ 22,252                       | 50,900   | --  |
| Lowell Holden       | \$ 9,609                        | --   | 21,897  |
| All three directors | \$ 45,000                       | 68,600   | 34,214  |
| Total               | \$ 132,696                      | 248,500  | 56,111  |

As of April 30, 2018, and October 31, 2017, the Company had the following outstanding accrued liabilities due to related parties:

| <b>As of</b>                                  | <b>April 30, 2018</b> | <b>October 31,<br/>2017</b> |
|---|-----------------------|-----------------------------|
| Accrued Commissions                           | \$ 33,372             | \$ 29,987                   |
| Total accrued liabilities and accrued expense | \$ 33,372             | \$ 29,987                   |

**NOTE 3 – EQUITY**

On January 31, 2018, the Company issued 30,750 shares of common stock at \$0.40 per share to an officer and director of the Company for their conversion of accrued compensation to equity with a fair value of \$12,300.

On April 30, 2018, the Company issued 25,361 shares of common stock at \$0.77 per share to an officer and director of the Company for their conversion of accrued compensation to equity with a fair value of \$19,528 for the settlement of a liability of \$12,309 which resulted in a loss of \$7,219 which was expensed at settlement.

**NOTE 4 – OPTIONS**

The Company, under its 2012 Stock Option Plan, issues options to various officers, directors, and consultants. The options vest in equal annual installments over a five year period with the first 20% vested when the options are granted. All of the options are exercisable at a purchase price based on the last trading price of the Company's common stock.

On January 11, 2018, the Company modified the conversion price of 815,000 options which had been granted to Vice President of Marketing and Sales on August 22, 2014. The modification extended the term of the options 10 years, reduced the conversion price per option from \$1.20 to \$0.40 per share and increased the fair value of the options by \$3,720 to be amortized over the term of the option with no changes to the vesting of the options.

On January 31, 2018, the company issued 138,000 options to two independent directors and three officers with exercise price of \$0.001 for accrued compensation contributed to capital. The options have a fair value using the Black Sholes valuation of \$55,114 with computed volatility of 206% and a discount rate of 2.72%. The options were vested upon issuance.

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On March 27, 2018, the company issued 215,000 options to various employees and consultants with an exercise price of \$0.38. The options have a fair value using the Black Sholes valuation of \$105,270 with computed volatility of 208% and a discount rate of 2.82%. The options are vested at 20% upon issuance and 20% each annual anniversary thereafter.

On April 30, 2018, the company issued 110,500 options to two independent directors and three officers with exercise price of \$0.001 for accrued compensation contributed to capital. The options have a fair value using the Black Sholes valuation of \$84,947 with computed volatility of 207% and a discount rate of 2.95%. The liability for which the options were issued was \$52,973 with a loss recognized at settlement of \$31,974 which was expensed. The options were vested upon issuance.

The Company has elected to expense the options over the life of the option as stock based compensation. The expense is calculated with a Black Scholes model to reach the fair value over the length of each option. The total value calculated for option expense is \$2,780,512. During the six months period ended April 30, 2018, the Company expensed \$205,097 for options. The unrecognized future balance to be expensed over the term of the options is \$1,006,516.

The following sets forth the options granted and outstanding as of April 30, 2018:

|                                  | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contract Life</b> | <b>Granted<br/>Options<br/>Exercisable</b> | <b>Intrinsic value</b> |
|----------------------------------|----------------|--|---|--|------------------------|
| Outstanding at October 31, 2017  | 7,223,800      | 0.40   | 4.77  | 5,518,640                                  | 1,401,820              |
| Granted                          | 463,500        | 0.18   | 10.0  | --   | --                     |
| Exercised                        | --             | --   | --  | --   | --                     |
| Forfeited/Expired by termination | --             | --   | --  | --   | --                     |
| Outstanding at April 30, 2018    | 7,687,300      | 0.34   | 5.71  | 6,074,480                                  | 3,208,914              |

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

The Company leases office space located at 2233 Argentia Road Suite 306 Mississauga, Ontario, Canada L5N 2X7.

During May 2017, the Company signed a new 5 year lease for the Company's office being effective on August 1, 2017 through July 31, 2022. The lease is for approximately 2,210 square feet of office space with a gross monthly rental cost including common area charges of \$4,097.

The yearly rental obligations including the lease agreements are as follows:

| Fiscal Year |            |
|-------------|------------|
| 2018        | \$ 24,649  |
| 2019        | \$ 49,164  |
| 2020        | \$ 49,164  |
| 2021        | \$ 49,164  |
| 2022        | \$ 36,873  |
| Total       | \$ 209,014 |

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**Item 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Skkynet’s actual results could differ materially from those set forth on the forward-looking statements as a result of the risks set forth in Skkynet’s filings with the Securities and Exchange Commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.

OVERVIEW

Skkynet is a Nevada corporation headquartered in Mississauga, Canada. Skkynet operates three different lines of business through its wholly-owned subsidiaries Cogent Real-Time Systems, Inc. (“Cogent”), Skkynet, Inc. (“Skkynet (USA)”), Skkynet Corp. (“Skkynet (Canada)”), and Skkynet Japan (Ltd.) (“Skkynet Japan”). Skkynet was established to enhance Cogent’s existing business lines through the integration of Cloud-based systems, and to deliver a Software-as-a-Service (“SaaS”) product targeting the Industrial Internet of Things (“IoT”) market, now referred to by the terms “Industry 4.0” and “Industrial Internet Consortium”.

The Company provides software and related systems and facilities to collect process and distribute real-time information over a network. This capability allows the customers to both locally and remotely manage, supervise and control industrial processes and financial information systems. By using this software and, when requested by a client, our web based assets, our clients and their customers (to the extent relevant) are given the ability and the tools to observe and interact with these processes and services in real-time as they are underway and to give them the power to analyze, alter, stop or otherwise influence these activities to conform to their plans.

RESULTS OF OPERATIONS

For the three and six month periods ending April 30, 2018, revenue was \$307,911 and \$693,817 compared to \$378,551 and \$663,620 for the same periods in 2017. Revenue increased for the six month period ending April 30, 2018 over same period ended April 30, 2017 by 4.6%. The increase in revenue for the six month period ended April 30, 2018 is attributed higher sales by the Cogent and Skkynet Japan divisions.

General and administrative expense was \$538,923 and \$1,060,566 for the three and six month periods ended April 30, 2018 compared to \$536,665 and \$1,050,518 for the same periods in 2017. The increase in general and administrative expenses for the three and six month periods ended April 30, 2018, was a result of higher options expense along with lower payroll in 2018 over 2017.

For the three and six month periods ending April 30, 2018, the Company posted operating loss of \$241,759 and \$391,736 compared to operating loss of \$175,636 and \$414,861 for the same periods in 2017. The increase in operating loss during the three months is attributable to lower sales in 2018 over 2017 and the decrease during the six month periods is attributable to higher sales in of 2018 over 2017 and decreased expenses in consulting, salaries, and office expenses.

Other expense for the three and six month periods ending April 30, 2018, were \$18,960 and \$39,420 compared to other income of \$11,589 and \$7,084 for the same periods in 2017. The losses in 2018 were to a loss on settlement of a liability of \$39,193 that was not incurred in the same period in 2017.

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Net loss before income taxes of \$260,719 and \$431,156 was recorded for the three and six month periods ending April 30, 2018, compared to a net loss before income taxes of \$164,047 and \$407,777 for the same periods in 2017. The higher losses for the three months period in 2018 can be attributed to increased general and administrative expenses and lower sales plus a loss on settlement of liabilities of \$39,193 in 2018 compared to 2017, while the higher loss for the six months period was attributed to slightly higher general and administrative costs and a loss on settlement of liabilities of \$39,193 in 2018 over 2017.

Net loss after taxes of \$260,179 and \$431,156 was recorded for the three and six month periods ending April 30, 2018, compared to a net loss after taxes of \$164,222 and \$409,784 for the same periods in 2017.

The Company incurred a comprehensive loss of \$235,861 and \$372,878 for the three and six month periods ended April 30, 2018 compared to a comprehensive loss of \$161,882 and \$409,929 for the same periods in 2017. The comprehensive loss is an adjustment to net loss with accrued preferred stock dividends and foreign currency translation adjustments along with taxes taken into account.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2018, Skkynet had current assets of \$827,876 and current liabilities of \$270,393, resulting in working capital of \$557,483. Accumulated deficit, as of April 30, 2018, was \$5,287,336 with total shareholders' equity of \$579,038.

Net cash used in operations for the six months ending April 30, 2018, was \$104,951 compared to net cash used of \$25,611 for the same period in 2017.

Net cash used in operations increased by \$79,340 primarily due changes in account receivable and option based compensation in 2018 over 2017.

Net cash provided from financing activities, during the six months period ended April 30, 2018 was zero compared to \$256,300 from the sale of common stock during the same period in 2017.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, Skkynet is not required to provide information required under this Item.

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**ITEM 4: CONTROLS AND PROCEDURES**

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934 (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Principal Executive Officer and the Principal Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with participation of our Principal Executive Officer and Principal Financial Officer (the "Certifying Officers") conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2018. Based on that evaluation, our management concluded that there is a material weakness in our disclosure controls and procedures over financial reporting. The material weakness results from a lack of written procedures which effectively documents the proper procedures and descriptions of the duties of all persons involved in the disclosure controls of the Company. The Company hopes to implement plans to document the procedures and internal controls of the Company. A material weakness is a deficiency, or a combination of control deficiencies, in disclosure control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. This does not include an evaluation by the Company's registered public accounting firm regarding the Company's internal control over financial reporting.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management believes that the Unaudited Financial Statements included herein present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented.

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**PART II – OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

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

**ITEM 1A: RISK FACTORS**

There have been no material changes to Skkynet's risk factors as previously disclosed in our most recent 10-K filing for the year ending October 31, 2017.

**ITEM 2: SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On January 31, 2018, the Company issued 30,750 shares of common stock at \$0.40 per share to an officer and director of the Company for their conversion of accrued compensation to equity with a fair value of \$12,300.

On April 30, 2018, the Company issued 25,361 shares of common stock at \$0.77 per share to an officer and director of the Company for their conversion of accrued compensation to equity with a fair value of \$19,519 for the settlement of a liability of \$12,300 which resulted in a loss of \$7,219 which was expensed at settlement.

**ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4: MINE SAFETY INFORMATION**

None.

**ITEM 5: OTHER INFORMATION**

None.

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**ITEM 6: EXHIBITS**

|                     |  |
|---------------------|--|
| <u>EXHIBIT 31.1</u> | <u>Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>EXHIBIT 31.2</u> | <u>Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>  |
| <u>EXHIBIT 32.1</u> | <u>Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>EXHIBIT 32.2</u> | <u>Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS             | XBRL Instance Document   |
| 101.SCH             | XBRL Taxonomy Extension Schema Document  |
| 101.CAL             | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF             | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB             | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE             | XBRL Taxonomy Extension Presentation Linkbase Document   |

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**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SKKYNET CLOUD SYSTEMS INC.

Date: June 14, 2018

By: */s/ Andrew Thomas*

Andrew Thomas, Chief Executive  
Officer

(Duly Authorized, Principal Executive  
Officer)

By: */s/ Lowell Holden*

Lowell Holden, Chief Financial Officer

(Duly Authorized Principal Financial  
Officer)