Skkynet Cloud Systems, Inc.
Form 10-K
February 13, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended **October 31, 2018**

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

For the transition period from _____ to _____

Commission File Number: **000-54747**

SKKYNET CLOUD SYSTEMS, INC.

Nevada	**45-3757848**
State or other jurisdiction of incorporation or organization	(IRS Employer Identification Number)

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

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(888) 628-2028**

Securities registered pursuant to Section 12(b) of the Act: None.

Name of each exchange on which registered: None.

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.001

Indicate by check mark if the registrant is a well-seasoned issuer, as defined in Rule 405 of the Securities Act ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15d of the Act ¨ Yes x No

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

Indicate by checkmark 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 previous 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

Indicate by checkmark if disclosure of delinquent filers to Item 405 of Regulation S-K (§229.405) is not contained herein and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x
Emerging Growth Company	x		

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. x

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

The aggregate number of shares of the voting stock held by non-affiliates on April 29, 2018 was 15,840,300 with a market value of $12,323,753. For the purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates.

The number of shares outstanding of the Company's $.001 Par Value Common Stock as of February 13, 2019, was 51,363,022.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. The forward-looking statements may include projections and estimates concerning the timing and success of our business activities, our revenues, income and capital spending. We generally identify forward-looking statements with the words “believe,” “intend,” “expect,” “seek,” “may,” “should,” “anticipate,” “could,” “estimate,” “plan,” “predict,” “project” and other similar expressions. All statements we make relating to our estimated timelines and commencement of operations, and our projected earnings, costs, expenditures, cash flows, and financial results or to our expectations regarding future industry trends are forward-looking statements.

These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. The forward-looking statements contained in this Form 10-K are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this Form 10-K are not guarantees of future performance, and we cannot assure any reader that such statements will prove correct or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the numerous risks and uncertainties as described elsewhere in this Form 10-K.

All forward-looking statements are based upon information available to us on the date of this Form 10-K. We undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law. These cautionary statements qualify all forward-looking statements attributable to us, or persons acting on our behalf. The risks, contingencies and uncertainties associated with our forward-looking statements relate to, among other matters, the following:

- our ability to attract new clients to enter into subscriptions or one time installations for our products and services;
- our ability to service those clients effectively and induce them to renew their subscriptions to our products and services;

- our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target;

- our ability to accurately forecast revenue and appropriately plan our expenses;

- continued market acceptance of our products and services, including alternate ways of addressing needs for coordination and control of manufacturing and financial services processes through modified or new technologies we create;

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- continued acceptance of our products and services as an effective method for delivering manufacturing and financial services management solutions and other manufacturing and financial services management applications;
- the attraction and retention of qualified employees and key personnel;
- our ability to protect and defend our intellectual property;
- costs associated with defending intellectual property infringement and other claims;
- events in the markets for our products and applications and alternatives to our products and applications, in the United States and global markets generally;
- future regulatory, judicial and legislative changes in our industry;
- changes in the competitive environment in our industry and the markets in which we operate;
- developments and acceptance, favorable and unfavorable, about the use of cloud systems for the implementation of our products and services;
- other factors discussed under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in this Form 10-K.

We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-K.

As used in this Form 10-K, unless the context otherwise requires, the terms "we," "us," "the Company," "Skkynet" and "Coge refer to Skkynet Cloud Systems, Inc., a Nevada corporation, and its subsidiaries.

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PART I

ITEM 1: BUSINESS.

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 ("Skkynet Japan"). Skkynet was established to enha Cogent's existing business lines through the integration of cloud-based systems (Cloud), 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". We will also expand the areas of business activity to which our products and services are applied.

In a report dated December 2, 2014 International Data Corporation ("IDC") predicted that worldwide Information and Telecommunications Technology ("IT") spending would grow 3.8% year over year to over $3.8 trillion in 2016, with IoT being one of the most important innovation accelerators for growth and expansion of IT-based value in third-party platforms[1]. Gartner, Inc. ("Gartner") issued a similar prediction for worldwide IT spending to grow 2.4% year over year to $3.8 trillion in 2016[2]. IDC also forecasted in October 2014 that public IT Cloud services spending will approach $127 billion in 2018[3]. The same IDC research report states that over the next five years spending on public IT Cloud services will expand at a compound annual growth rate (CAGR) of 22.8 percent from over $56 billion in 2014, which is six times that of the IT industry as a whole. Moreover, IDC predicts that public IT cloud services will account for more than half of worldwide software, server, and storage spending growth. Gartner reports a similar growth trend in IT spending on public Cloud services, which is five times faster than growth in IT spending across all other categories[4]. In December 2014, IDC released a report forecasting that worldwide SaaS enterprise applications will increase to $50.8 billion by 2018, from $22.6 billion in 2013, at a CAGR of 17.6% over this five-year period[5]. On November 10, 2014, Gartner forecasted that by 2018, much of what will drive digital business will only be viable in SaaS[6].

Boston Consulting Group issued reports on Industry 4.0 and how the future of productivity and growth in manufacturing industries will be impacted by the convergence of nine new technologies[7], and how it will transform the industrial workforce[8]. Of the nine new technologies, several fit within the scope of Skkynet's core technical expertise: the cloud, cybersecurity, the industrial internet of things, and horizontal and vertical system integration. Specifically, Skkynet provides software and related systems and facilities to collect process and distribute real-time information over a network. This capability allows our customers to both locally and remotely manage, supervise and control industrial processes and financial information systems. By using our software and web-based assets we provide our clients and their end-customers, the ability and tools to observe and interact with these processes in

real-time. We give our customers the power to analyze, change and control their local and remote systems to meet regulatory requirements and exceed target objectives. Through Skkynet Japan, we also provide custom hardware and firmware development for embedded systems. This capability allows us to connect industrial hardware directly to our SaaS Cloud-based service.

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[1] http://www.idc.com/getdoc.jsp?containerId=prUS25285614

[2] http://www.gartner.com/newsroom/id/2959717

[3] http://www.idc.com/getdoc.jsp?containerId=prUS25219014

[4] http://www.gartner.com/doc/2858118/forecast-public-cloud-services-worldwide

[5] http://www.idc.com/getdoc.jsp?containerId=252568

[6] http://gartnernews.com/gartner-forecasts-it-spending-growth-and-trends/

[7] http://www.bcgperspectives.com/content/articles/engineered_products_project_business_industry_40_future_productivity_gro

[8] http://www.bcgperspectives.com/content/articles/technology-business-transformation-engineered-products-infrastructure-man-

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We believe there is a steady movement of manufacturing facilities from developed countries to underdeveloped countries because of the economic advantages of lowering production costs; however, this relocation process should not be viewed in traditional frameworks alone. In the United States there is a movement from high to low-cost states such as Alabama, and, for other reasons, European and Asian manufacturers are locating their own manufacturing facilities within the United States. The tendency is to relocate physical plants while preserving the overall engineering skills, process analytics and related intellectual property and management systems at home. This geographical distinction between production and engineering requires the ability to remotely monitor these systems during operations to control processes in real-time while preserving the safety, confidentiality and integrity of the manufacturer's process and information. Our products and Cloud-based services are designed to address these issues and concerns.

Although we are primarily involved thus far in the areas of industrial processing and financial services, the concepts and software underlying our existing products and services are applicable to a variety of areas including fleet tracking**,** energy usage monitoring and control including wind power, solar power and agriculture. Our products are modular in design and are therefore well-suited for use in OEM and embedded products. We have obtained existing clients in some of these areas, but to date we have not had the resources to pursue systematically the marketing and sale of our products and services to these industries.

Our Status as an Emerging Growth Company

We are an "emerging growth company ("EGC") as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). An EGC is defined as a company with total annual gross revenues of less than $1 billion in its most recently completed fiscal year. An EGC will retain such status until the earlier of: (1) the fifth anniversary of the date it first sold securities pursuant to an IPO registration statement; (2) the last day of the fiscal year in which it first exceeds $1 billion in annual gross revenues; (3) the time it becomes a large accelerated filer (an SEC registered company with a public float of at least $700 million); or (4) the date on which the EGC has, within the previous three years, issued $1 billion of nonconvertible debt.

The JOBS Act affords an EGC an opportunity to get a temporary reprieve from certain SEC regulations by exempting an EGC from these regulations for up to five years. These eased requirements include an exemption from certain financial disclosure and governance requirements and relaxed restrictions on the sale of securities. The JOBS Act also increases the number of shareholders a company must have before becoming subject to the U.S. Securities and Exchange Commission's ("SEC") reporting and disclosure rules. The JOBS Act provides scaled disclosure provisions for EGCs, including, among other things:

- permitting EGCs to include only two years of audited financial statements in the registration statement filed under the Securities Act of 1933 (the "Securities Act") for an IPO of common equity securities;

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Section 107(b) of the JOBS Act also permits an EGC to elect an extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until such time as these new or revised standards are made applicable to all private companies. If the Company made this election it would mean that our financial reporting would not conform to that of existing smaller reporting companies formed prior to the passage of the JOBS Act. Accordingly, we have elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to section 107(b) of the JOBS Act which means that our accounting and financial reporting requirements will conform to all requirements of existing "smaller reporting companies" under the Exchange Act of 1934. Under the JOBS Act our election is irrevocable.

Our acquisition of Cogent

In March 2012, we completed the acquisition of all of the issued and outstanding shares of common stock of Cogent from Sakura Software Inc. and Benford Consultancy Inc. in exchange for a total of thirty million (30,000,000) restricted shares of our common stock, as a result of which Cogent became our wholly-owned subsidiary. As part of the exchange transaction we also issued 5,000 Series A Preferred share to Sakura Software and Benford Consultancy. Prior to the closing of the exchange transaction, we did not have any operating revenues. At the acquisition closing, Cogent's business consisted primarily of providing connectivity and data acquisition to a wide variety of industrial and office hardware and software products, and then making that data available over a network using industry-standard protocols. Cogent currently markets its products and services primarily to manufacturers in industrial processes and financial services companies. Cogent had approximately $1,238,312 in annual revenues from its operations for its fiscal year ended October 31, 2018 and $1,090,044 in annual revenues for the fiscal year ended October 31, 2017.

Our acquisition of NiC

In November 2014, we completed the acquisition of all of the issued and outstanding shares of common stock of NiC Corporation (now named Skkynet Japan) in Osaka, Japan from Mr. Akira Iwata, Mrs. Takako Nishikawa and Mr. Mitsuharu Sekiguchi in exchange for a total of one-hundred and ten thousand ($110,000.00) U.S. dollars and fifty thousand (50,000) restricted shares of our common stock, as a result of which NiC became our wholly-owned subsidiary. At the acquisition closing, NiC's business consisted primarily of providing custom hardware and software development services to a variety of embedded industrial and office hardware and software products. In August 2017, NiC was formally renamed to Skkynet Japan and now markets and provides support for Skkynet's products and services primarily to manufacturers in industrial processes and energy companies.

Our business

We are an industrial middleware vendor that has specialized in providing connectivity and data acquisition to a wide variety of industrial and office hardware and software products, and making that data available over a network using industry-standard protocols. We have introduced a number of innovations to our real-time data products including a high speed redundancy facility and a web-based user interface providing desk-top quality graphics. We have patented and patent-pending technologies that addresses the data transmission problems of data rate, latency, redundancy, and security in Cloud based systems with a unique push-pull system that insulates both a plant and a remote user from opening their firewalls to the Internet, as well as networking bidirectional real-time data directly from within Microsoft Excel™.

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Our system can operate as a simple add-on to existing Supervisory Control and Data Acquisition (SCADA) or as the basis for new deployment. SCADA is a system that collects information from various sensors installed at a factory or other remote locations. All of the collected data is sent to a common or central computer for further processing and storage and is used to describe control processes in various industries such as water treatment, manufacturing processes, and environmental procedures.

Skkynet's newly-released award-winning SkkyHub™ service is compatible with our existing DataHub® and Embedded Toolkit (ETK) software. Current customers of our DataHub® software can easily configure it to immediately take advantage of our Cloud services. Our DataHub® software includes applications for all of the following uses:

- real-time graphical web display of data, which includes collaborative screen development and full permissions-based access;
- connection to data from OPC (open process control), DDE (dynamic data exchange) and Modbus servers to produce immersive real-time displays to analyze the current status of factory production, embedded systems or financial strategies;
- connection to data from MQTT clients to connect remote sensors and other Cloud-based services, such as 'big data' analytics and Artificial Intelligence applications, offered by Amazon, Microsoft and Google;
- a feature that enables full data mirroring designed to overcome DCOM (distributed component object models) server issues to permit connection to the most recent data available if a server is temporarily unavailable;
- data logging which enables both reading and writing of data with any ODBC (open database connectivity) database such as most Windows and Linux databases;
- creation of a data bridging interface to permit association of data points in one system with corresponding data points in another control system;
- the ability to provide historical data for both QuickTrend and WebView trend displays;
- data redundancy features; and
- network system monitoring with the ability to query the operating system it is running on for system status and resource capacity such that this system wide monitoring of critical network resources can help identify problems.

These DataHub® features make our existing customer base a logical first marketing source for the adoption of our Cloud services. Our SkkyHub™ service provides the following additional functionality and features over the DataHub®:

- scalable remote networking of industrial SCADA systems and embedded devices in real-time with built-in consolidation of data;

- lower cost of ownership by not requiring any programing, no software to buy, no additional PC or server hardware to buy;

- high-speed data throughput with the ability to collect, send, and receive up to 50,000 data changes per second at speeds just a few milliseconds over Internet latency;

- robust security model, where no inbound connection requests to the SCADA system or embedded device are required;

- full supports of industry standard SSL encryption protection, and no requirement for virtual private networks (VPNs) or additional security hardware;

- no changes to the hardware or software of an existing system. Our customers can decide what data to transmit, and how: one-way or bidirectional, where all configuration changes are in the customers' control;

- view any connected process in a fully web-based interface, providing immersive graphics and real-time response that replicates or exceeds the performance of traditional human-machine-interfaces (HMIs);

- granular security permissions so that qualified users can configure security settings to provide read-only access to limited data sets for public use, while giving bi-directional access to insiders. Authorized developers can access the complete online design interface;

- create and edit screens from any location, all within a standard web browser; no coding or development system is required, and our customers can drag-and-drop desktop-quality graphics to build HMI screens right inside a web browser as it populates and displays data in real-time on the same screen; changes can be deployed to all users instantly;

- DataHub® Embedded Toolkit (ETK) provides a direct link to SkkyHub™ from a wide range of devices and operating systems, a seamless, end-to-end solution for M2M and viewing customer data from their device on the Internet

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Our customers

Currently, our customers can be broadly categorized into two groups: industrial automation and financial trading. Industrial automation systems (including remote monitoring and tracking systems) account for approximately 80% of revenue, while financial trading, software support, custom development and legacy system support account for the remainder.

Over a six year period we, including the historical operations of Cogent, have provided our products and services to more than 1100 customers in the following industries: Aerospace, Automation & Control, Chemicals, Communications, Education, Engineering, Energy & Utilities, Financial, Food & Beverage, Government & Municipal, Healthcare & Pharmaceutical, Instrumentation, Manufacturing, Natural Resources and System Integrators.

The Company sells to their end-user customers both directly and through resellers. Four resellers accounted for 49% of sales in 2018 and three resellers accounted for 51% of sales in 2017. The Company maintains all the information on their end user customers, and should a reseller discontinue operations, the Company can sell directly to the end user. In 2018, no end user customers were responsible for more than 10% of our revenues and twenty one (21) end user customers were responsible for approximately 50% of gross revenue. In 2017, no end user customer was responsible for more than 10% of revenue and twenty three (23) end user customers were responsible for approximately 50% of gross revenue.

Our financial customers are typically small to medium sized specialist trading firms or hedge funds targeting specific niches. We have customers working in risk management, futures trading, commodities trading, arbitrage, energy spot trading and other areas. Our software is used as a data transmission middleware allowing the customer’s analysts to apply proprietary algorithms to market data and then to distribute it to their clients at very high speed. Our customers in the financial sector are generally reluctant to share the details of their deployments due to competitive concerns, making sales by example more difficult.

Our products and services

Our business is organized such that we license our software under a variety of packaging and financial arrangements. Our software is designed to be modular, such that the customer can choose from a variety of product packs(“Product Pack”) and features to create the type of system that they require. There are currently eighteen (18) different Product Packs such as DataHub® OPC Tunneller and DataHub® WebView. Each Product Pack is a selection of different functionalities chosen from a total of over 20 different available features. The customer selects the set of features it requires for its particular application, with the software licensing price determined by that feature set.

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In addition, we offer customers the ability to license our products for use as SaaS with a view to relicensing them to others with whom they do business. We also offer our licenses with upgrades in the form of an on-going maintenance program and service program for which we charge additional fees depending upon the package of services requested.

We offer OEM customers the ability to re-brand our software to integrate it with their own product offering. This re-branding can be “shallow” or “deep.” Shallow rebranding modifies the icons, images, name and contact information our software presents to the end user. There is no attempt to hide the fact that the software was developed by us. Deep rebranding attempts to remove all visible indications that our software is being used by the OEM customer. This requires more work and ongoing maintenance, as well as formal agreements with regard to our intellectual property.

Industrial automation systems require expertise to configure properly. Generally, the customer has in-house IT expertise regarding its particular process, but may have limited experience with our software or the details of communication integration. We offer consulting services to assist customers in configuring their systems and our software to smoothly integrate into their processes. We provide a limited amount of assistance at no charge as part of the sales cycle. Where the customer requires more involved assistance, we offer consulting services at market rates.

As part of our expansion into Cloud services, we provide three types of Cloud service: remotely hosted Cloud systems, locally hosted Cloud systems, or a hybrid of the two. In the remotely located case, we maintain and manage the operating system infrastructure that allows users to access their industrial automation data via the Internet. We subcontract the Cloud hardware infrastructure from large, established vendors. In the locally hosted case, the customer is responsible for the hardware and data connectivity, and we will provide the software, and optionally the system administration for that software. A customer who wants a remotely located Cloud system will still be required to run some software locally. Our existing on-premise software acts as a bridge between the plant and the remote Cloud system, making a hybrid implementation possible. If the Cloud system becomes unavailable due to communication outage or hardware failure, the customer’s plant will still continue to run in isolation from the remote Cloud system, simply reconnecting once the remote system becomes available again. In effect, our Cloud offering acts as an extension of the local process to a wide-area network or to the Internet. For reasons of speed, security and resiliency we do not anticipate that customers will accept a purely Cloud-based system for their immediate industrial automation data needs. We believe that this may change in the future as technology and market expectations change, as they have done in other markets that have adopted purely Cloud-based services, such as, for example, Salesforce.com and customer relations management (CRM) software.

Our on-premise software is available for download from our website, http://cogentdatahub.com. Our Cloud-based service is available for registration at http://skkynet.com. A customer can install and use the on-premise software in demonstration mode for a limited time, after which they can re-start the software to reset the time limit. This allows a potential customer to configure and test the software in their system before purchase, both to ensure that it will meet their needs and to determine which product features they will want to purchase. Similarly, the Cloud-based service is available to potential customers to sign up and use it for a paid trial to configure and test, as well as other service levels for full system implementations.

To ensure smooth implementation of our software in a customer's environment we have organized approximately 50 different technical partners and resellers in different geographic areas with whom we cooperate. Some of them also sell related hardware and software products of their own, and assist us in the installation, monitoring and maintenance of our products within their customer base. These technical partners may be listed on our website. We continuously seek to recruit new technical partners. We have made recent progress on partnering with world-class hardware companies such as Renesas Electronics (world's largest microcontroller vendor) and Red Lion Controls (a major industrial hardware vendor, and subsidiary of Spectris plc, a constituent of the FTSE 250 Index).

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Our service support to potential and existing customers

The nature of our market and our sales style demand timely and thorough customer support both before and after a sale is made. Because a potential customer can download and test our software, we provide service support even before the sale is made. This supplies the customer with a no-risk mechanism for ensuring that the software will work in their system, and gives us early feedback from the customer. If the customer has questions or concerns, they are answered immediately, making the subsequent sale and installation process simpler.

During the sales process, we work with customers via telephone or email to help them understand which product features are necessary for their projects. This starts with asking the customer to fill out a short questionnaire explaining their project needs when they ask for a cost quotation. If the customer is unsure about their software requirements, we assist by asking pertinent questions regarding the intended application and by providing clarification on the types of features they need.

We offer customer support via telephone email, fax and Internet message board during office hours. Where appropriate, we offer live desktop-sharing sessions with customers via video conference. This dramatically reduces the time to resolution when the customer's network and security policy allow it. We have distributors in different parts of the world who offer support in the customer's time zone and language. We place a high priority on support of distributors, including joint phone calls and video conference sessions with their customers to arrive at quick and satisfactory resolutions.

We incentivize distributors and resellers to develop their technical support capabilities by offering a price discount structure on software sales based on the degree to which the distributor can handle technical support requests from customers. Our goal is to have our sales occur through a combination of our direct efforts and reliance upon our global network of distributors, where the distributor provides support to the customer, and we provide support to the distributor.

Our marketing

We have a variety of marketing activities. In 2013, we launched a new website at http://skkynet.com focused on general company information, updates, and press releases regarding the general operations of the business, and as an information portal for the SkkyHub™ service. We also maintain a complete library information section of blog articles, whitepapers, and industry news on implementing real-time data access over the Cloud. In 2018, we launched a Japanese version of our website at http://skkynet.jp.

Our primary means of contacting customers is through direct telephone and email contact; appearances at tradeshows, publications in recognized industry magazines and periodicals, our websites coupled with Google advertising and marketed WebEx presentations, including joint promotions with key partners and resellers. We use Google ad-words and search engine optimization to draw the attention of customers in our market. Some of our website materials can be technical in nature, and may include live demonstrations, training videos and instruction manuals. We invite potential customers to download trial versions of our software prior to purchase.

We maintain distribution relationships with approximately 50 companies around the world. These companies perform their own marketing and promotion to varying degrees, using both original material and material that we provide. We continue to seek new qualified distribution partners, and in 2018 we became a technology partner/provider to Aveva PLC, a subsidiary of Schneider Electric, where our DataHub software is made available directly from Aveva's Digital Exchange website for download and evaluation.[9,10]

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In addition to the foregoing, we engage in the following activities as part of our marketing efforts. We have retained ARC Advisory Group to promote our new version of the DataHub and the security model of our SkkyHub service. This is augmented by a product features within ARC email publications, and ARC Forum conferences in which direct client meetings are arranged. We send a monthly newsletter to an opt-in mailing list of more approximately 10,000 customers and contacts. We produce periodic press releases through a press release service. We maintain LinkedIn, Twitter, YouTube and blog accounts for outreach to our customers and to draw attention to aspects of our software and market.

We write and publish case studies of successful implementations of our software. These are sometimes produced in cooperation with distributors, and are occasionally published in industry trade magazines. We publish white papers on technical subjects and send them to prospects and distributors, as well as distribute them on our website and through trade magazine websites. These activities are focused on education rather than promotion.

Our revenue sources

Our revenue comes from the following sources:

- Software licensing for industrial automation systems
- Software licensing for OEM customers
- Software licensing for financial trading systems
- Software support program renewals
- Legacy installation support
- Custom integration and development
- Monthly revenue from financial clients of Skkynet's VINE™
- SaaS revenue from industrial clients of SkkyHub™

More than 80% of our revenues are derived from software licensing for industrial automation systems; while financial trading, software support, custom development and legacy system support account for the remainder.

Our expenses

Our typical expenses are primarily incurred in the following areas: wages, benefits and contractors of which about half are for software development; office and general; sales, marketing, advertising and promotion. In future years we expect the proportion of expenses in our operating budgets allocable to the categories of programming development and sales personnel to increase as well as the expenses associated with maintaining and improving our Cloud-based site for our customers.

Our business plans

We believe that we have substantial room for growth in three primary areas of our business. The first is the expansion of our current lines of business providing real-time data middleware to the industrial automation and financial trading markets. Second, is the deployment of our products and services through Cloud-based SaaS products. Third, is the application of our products and services to new business lines such as embedded products; where “edge-processing” is required (e.g. remote monitoring and control of assets over third party networks). We have had limited resources to apply to marketing and sales in these areas. We believe that this revenue can be improved through dedicated marketing and sales effort.

_____

[9] http://skkynet.com/skkynet-software-available-on-aveva-digital-exchange/

[10] http://exchange.aveva.com/filterSearch?q=skkynet&adv=true

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We expect the second area of growth to be in the provision of Cloud services for real-time data. This is a market that is still in its formative stages around the world, and our technology is well suited to its development. We will expand and focus our software development on modifying our existing products to provide a smoother and more secure user experience for real-time data handling in the Cloud. Real-time Cloud systems require two components – a local component running at the customer's site, and a Cloud component running on a managed Cloud infrastructure system. Our software development will focus on improving the security and reducing the friction for users to deploy the local component on their systems. At the same time, we will improve the user experience and automation of the Cloud component to reduce the cost of management, deployment and scaling as the number of customers grows. We rent Cloud server space from Cloud infrastructure providers such as Amazon Web Services, and/or run and maintain our own servers. In the future, we may transition to our own servers as resources permit, and if there is an economic rationale to do so.

We recognize that not all customers will be willing to entrust some of their data transmission to a third party, or to an Internet-based server. In these cases, we offer to deploy our software on private servers managed by the customer or local Cloud infrastructure providers. These "private Cloud" systems will require IT professionals to maintain them, and will further require the attention of experts knowledgeable in real-time data systems. We offer our expertise on an ongoing basis to partially or completely manage private Cloud systems on behalf of our customers. For this reason, we are currently working to partner with Cloud infrastructure providers in other countries where there is sensitivity over customer data remaining inside those countries. In 2015, one such partner launched a new private Cloud service, iBRESS™, in Japan, and in December 2017 this partner launched a next-generation Cloud service localized to the Asian markets based on our SkkyHub™ service.

The third area of growth is also related to Cloud systems. For the past 20 years, commercial activity on the Internet has been dominated by business-to-consumer or business-to-business applications. The advent of extremely low-cost and low power consumption sensors will change that, making the Internet into a viable medium for machine-to-machine applications. That is, sensors, machines, appliances and other devices will become directly-connected data transmitters, numbering in the billions. This rise of machine-to-machine communication will require the kinds of real-time data distribution that will be at the center of our Cloud activity. We believe that our Cloud services will be positioned to take advantage of the future development of this "Internet of Things." Some examples of applications that need this kind of data access are home energy monitoring, commercial building energy management, agricultural monitoring, weather monitoring, remote seismic sensing, fleet tracking and asset maintenance.

Currently, we have a growing customer based in this area, but it is too soon to foresee to what extent, if at all, this aspect of our potential business will develop. However, recently we garnered significant industry recognition for our technology and SkkyHub™ service by winning Nokia's Open Innovation Challenge 2015 in Helsinki, Finland. We have also garnered recognition in academia, as exemplified by the 2016 IEEE publication titled "Cloud Communication for Remote Access Smart Grid Testbeds" by Mehmet H. Cintuglu and Osama A. Mohammed of Florida International University, which concluded that "cloud communication can be successfully implemented for actual smart grid power systems test beds."

These business areas are inter-related. A customer of our Cloud services may also want to install our middleware software in their plant facility. Any existing middleware customer is a potential customer for our Cloud services. In effect, each of our commercial offerings will act as a possible source of sales for the others. Our goals in increasing our sales of middleware software are both to improve short-term revenue and to create a market for our Cloud services. Once established, our Cloud services will further create a market for our middleware products.

In order to pursue all of these business areas, we will require capital to hire the personnel needed to explore and develop a strategy to pursue potential customers in each area.

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Our intellectual property

We have an exclusive license of all of our intellectual property, and enhancements thereof licensed to Cogent Real-Time Systems, Inc our wholly owned subsidiary from an affiliated corporation, Real Innovations International LLC, ("Real Innovations") that is 100% indirectly owned by our CEO and COO. See "Certain Relationships and Related Transactions." In return for the assignment Real Innovations required a one-time payment of $30,000 to Cogent. Cogent elected to forgo the payment allowing Real Innovations to offset future expenses against the payment. There is no ongoing royalty payment or other form of compensation from Real Innovations to Cogent under the Assignment Agreement. As a result of this license we have five U.S. patents and several patent applications pending for the real-time technologies employed in our software products. The first patent family is directed toward a system and method for providing real-time data to a web browser through use of a Rich Internet Application ("RIA"). Specifically, the graphical and networking features of RIA frameworks allow our software to provide low-latency, real-time data applications in a traditional web browser. The patent family includes U.S. Utility Patent Serial Nos. 8,661,092 and 9,667,689, Japanese Patent No. JP2012533444, Korean Patent No. KR101730584, Australian Patent No. 2010306379, International Patent Application Serial No. PCT/CA2010/001616 (published as WO 2011/044686, with International Search Report and Written Opinion), and National Phase applications currently filed and pending in Europe, China, Canada, Brazil and India.

The second patent family includes U.S. Patent Serial Nos. 9,100,424, 9,288,272 and 9,762,675 directed towards system and methods for secure real-time cloud services. The system and methods provide a communication framework between sensors, devices, and machinery and the users of that data from any remote location that is connected to the Internet without requiring open inbound firewall ports, while at the same time enabling high data rates, low latency and full bi-directionality. The graphical and networking features of RIA frameworks in combination with the patented system and method provide low-latency, real-time data applications in a web browser securely over the Internet. We have filed U.S. continuation and International Patent Application Serial No. PCT/IB2015/001765 for this patent application family, with National Phase applications currently filed and pending in Europe, China, Canada, Japan, Korea.

A third patent family was recently filed in the U.S. and internationally for improved methods to network bidirectional real-time data directly from within Microsoft Excel.

As part of our license we have the exclusive right to use several registered trademarks including "DATAHUB" and "SKKYNET" which are registered in the United States and Canada. We have trade secrets and technical know-how that we protect through confidentiality and restrictive covenants with our employees and contractors. Finally, under our license agreement, we have exclusive rights to all copyrighted software and written materials, which are stored as backups in several different physical locations, and in secure, encrypted format.

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Our competition

We face competition from several vendors who offer products similar to ours in the industrial automation space. Some of these competitors have resources and revenues larger than ours; however, our software is compatible with their products, making it common for a customer to install software from both us and our competition in the same system. We are not aware of direct competition for our products in the financial services sector. Two companies, Tibco and Lightstreamer, provide software that overlaps with some of the capabilities of our software; however, to our knowledge the Cogent DataHub® and VINE™ are the only products that provides real-time data links between Excel spreadsheets over the Internet or on a network.

There are also a number of large industrial automation vendors who offer SCADA systems to their clients. Examples include Siemens, ABB, Emerson Process Management, Rockwell Automation, Honeywell Process Solutions, GE Invensys and PTC. We view these companies and others performing similar services as potential competitors inasmuch as they have resources to link their SCADA functions to a Cloud based system; however, we are not currently aware that any vendor is doing so yet. Since these companies already have an installed base of SCADA customers whose systems can be easily connected to our software, these companies also represent an opportunity for joint sales or OEM licensing. A number of these companies are already our customers.

There do not currently appear to be Cloud system companies organized for the purpose of hosting real-time industrial data and connectivity. One company, LogMeIn, Inc. (previously Pachube and then Cosm Ltd.), is providing Cloud storage services branded under Xively™ for sensor data, but we do not regard them as competitive due to their focus on storage rather than real-time collection and distribution. Cloud infrastructure companies such as Amazon, Microsoft (Azure) and Google offer pre-configured applications or computing platforms for remotely hosting a customer's IT activities. Their primary purpose is to provide the computing substrate for the customer's applications. As such, these companies, as presently operated, act as suppliers of computing resources to us, not as competition.

Employees

Currently, other than our five officers, we have five full time employees and five consultants.

ITEM 1A: RISK FACTORS

Not applicable

ITEM 1B: UNSOLVED STAFF COMMENTS

None

ITEM 2: PROPERTIES

The Company principal office is located at 2233 Argentia Road Suite 306 Mississauga, Ontario Canada L5N 2X7. The offices are leased from 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.

ITEM 3: LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Besides from the proceeding described below, 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 4: MINE SAFETY DISCLOSURE

Not applicable

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PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock is currently traded on the OTC.BB market under the ticker symbol SKKY. The Company commenced trading on April 16, 2013, As of October 31, 2018; the Company had 51,363,022 shares of its common stock issued and outstanding, of which 15,840,500 were held by non-affiliates. The Company has authorized 70,000,000 shares of common stock, par value $.001 and 5,000,000 shares of preferred stock, par value $.001, of which 5,000 shares are issued and outstanding.

The high and low closing prices are noted below:

Period	High Bid	Low Bid
1st Qtr. 2017	0.90	0.55
2nd Qtr. 2017	0.90	0.45
3rd Qtr. 2017	0.90	0.252
4th Qtr. 2017	0.40	0.30
1st Qtr. 2018	0.45	0.40
2nd Qtr. 2018	0.77	0.25
3rd. Qtr. 2018	0.77	0.61
4th Qtr. 2018	0.61	0.55

As of October 31, 2018, the Company estimates there are approximately 126 "holders of record" of its common stock.

Dividends

We have not declared nor paid any cash dividend on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers significant.

Unregistered Sale of Equity Securities

On March 7, 2017, the Company issued 233,000 shares of common stock to one individual at $1.10 per share with a value of $256,300 for cash.

On October 31, 2017, the Company issued 123,000 shares of common stock at $0.40 per share to an officer and director of the Company for their contribution of accrued compensation to capital with a value of $49,200.

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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.

On July 31, 2018, the Company issued 19,711 shares of common stock at $0.61 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.

ITEM 6: SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

OVERVIEW

The Company was incorporated on August 31, 2011 in the State of Nevada. On March 26, 2012, the Company acquired Cogent Real-Time Systems, Inc.

Skkynet is an evolution of Cogent, an established financial and industrial middleware software vendor. Cogent's specialization has focused on providing connectivity and data acquisition to a wide variety of industrial and office hardware and software products, and then making that data available over a network using industry-standard protocols. The architecture of Cogent's software naturally suits it for use both as a data aggregation platform at the process level, and as a data server at the Cloud level. By marrying these two capabilities together, Skkynet can effectively and securely offer the Cloud as an extension to any local process.

Cogent's market has been primarily in industrial automation. With little advertising, Cogent has also acquired a number of financial trading companies as clients, due to the fact that Cogent's software is both source and content agnostic. High-speed trading and high-speed industrial automation behave very similarly at the level of abstraction that Cogent's software uses. Recently, Cogent has been working with Japanese companies to penetrate the lucrative embedded device manufacturing world. Japan is one of the largest producers of consumer and business electronics devices, more and more of which contain small embedded computers. Cogent has been working with partners in Japan to establish a name and presence in this world, with the aim of having Cogent's software installed directly on the electronic devices, allowing the manufacturers to instantly make them network-accessible.

The Company believes that deploying its product in a Cloud environment will increase the potential applications for customers and broaden its usage and expansion into various markets including Cloud industrial middleware, Cloud financial services, home monitoring, fleet tracking, and energy usage monitoring. New applications that may not exist today but will through the new Cloud platform may also open new markets unknown to Skkynet today. However, Management will carefully monitor the growth in new markets and manage each opportunity to maximize its return and minimize risks. This includes selecting specific markets with known trends to introduce its products and services and maintain a controlled release until the market has been understood and sales in the market have become significant to the Company. Only then will the Company risk new markets for its product. We must also include additional staffing at the senior management level with proven experiences and business records in the Company's environment to implement these markets.

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The expansion into new markets will require additional cash resources from sources other than those available to the Company today. Only after the Company has secured specific amounts of financing it believes is required for development of each market application enumerated above will Skkynet begin its marketing efforts.

The additional staffing will not begin until Skkynet has funded itself to finance both the staff increase and the required capital to carry out its marketing plan. If the Company is not successful in obtaining the required additional capital, it believes the present business operation will be able to sustain Skkynet's additional costs as a public company at a minimal level.

RESULTS OF OPERATIONS

The following table sets forth selected statement of operations data as a percentage of total revenues for the periods indicated:

	For Years Ended October 31,			
	2018		2017	
Revenue	$ 1,466,412	100%	$ 1,336,316	100%
Direct material costs	50,921	3.4%	32,254	2.4%
Gross profit	1,415,491	96.6%	1,304,062	97.6%
Operating expenses:				
General and administrative expense	1,915,349	(130.6)%	2,053,758	(153.7)%
Depreciation	496			