

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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
State or other jurisdiction of
incorporation or organization

45-3757848
(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.

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| | | | |
|-------------------------|----|---------------------------|----|
| 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 enhance 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 platforms¹. Gartner, Inc. (“Gartner”) issued a similar prediction for worldwide IT spending to grow 2.4% year over year to \$3.8 trillion in 2016². IDC also forecasted in October 2014 that public IT Cloud services spending will approach \$127 billion in 2018³. 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 categories⁴. 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 period⁵. On November 10, 2014, Gartner forecasted that by 2018, much of what will drive digital business will only be viable in SaaS⁶.

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 technologies⁷, and how it will transform the industrial workforce⁸. 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.

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 programming, 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 tradeshow, 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

Table of Contents**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 |
|---------------------------|-----------------|----------------|
| 1 st Qtr. 2017 | 0.90 | 0.55 |
| 2 nd Qtr. 2017 | 0.90 | 0.45 |
| 3 rd Qtr. 2017 | 0.90 | 0.252 |
| 4 th Qtr. 2017 | 0.40 | 0.30 |
| 1 st Qtr. 2018 | 0.45 | 0.40 |
| 2 nd Qtr. 2018 | 0.77 | 0.25 |
| 3 rd Qtr. 2018 | 0.77 | 0.61 |
| 4 th 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 | (0.0)% | 701 | (0.00)% |
| Income (loss) from operations | (500,354) | (34.1)% | (750,397) | (56.29)% |
| Other income(expense) | (22,764) | 1.6% | (25,846) | 1.9% |
| Net income(loss) before taxes | (523,118) | (35.7)% | (776,243) | (58.1)% |
| Tax refund | 32,275 | 2.2% | 33,317 | 2.5% |
| Net income (loss) | (490,843) | (33.5)% | (742,926) | (55.6 %) |

Revenue: For the year ended October 31, 2018, the Company had revenues of \$1,466,412 compared to \$1,336,316 of revenue for the year ended October 31, 2017. This reflects an increase of \$130,096 from 2017 to 2018. Sales increase can be attributed to the increase of sales in Cogent. During the year ended October 31, 2018 the Company deferred revenue was \$88,386 compared to a deferred revenue balance of \$ 103,204 as of October 31, 2017, a decrease of \$14,818. Deferred revenue consists of services billed but not yet provided to the customer and reflects revenues that will be recognized in the future.

Direct Costs: For the year ended October 31, 2018, the Company's direct costs were \$50,921 compared to \$32,254 for the same period in 2017, an increase of \$18,667. The increase was attributable the sales mix in Skkynet Japan. Costs as a percent of revenue increased in 2018 over the same period in 2017 by 1.25%.

General and Administrative Expenses: (G&A) Total general and administrative expenses decreased to \$1,915,349 in the year ended October 31, 2018 from \$2,053,758 for the same period in 2017. This was a decrease of \$138,409 and as a percent of revenue G&A decreased from 153.7% in 2017 to 130.6% in 2018. The decrease is attributed to lower costs in the Cogent subsidiary in 2018.

Depreciation and Amortization: The Company had depreciation of \$496 in 2018 compared to \$701 in 2017.

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Other Income Expenses: Other income and expense totaled \$22,764 in expense during the year ended October 31, 2018 compared to \$25,846 in income during the same period in 2017. The expense consisted of currency exchange of \$15,301 and loss on settlement of liabilities of \$39,193 and other income of \$1,128 compared to other income of \$1,132, interest and currency exchange of \$26,978 in the same period for 2017.

Income Tax: During the periods ending October 31, 2018 and 2017 the Company and subsidiary incurred no tax. The subsidiary filed tax returns as a foreign corporation. During the years ended October 31, 2018 the subsidiary received a tax refund of \$32,275.

Net Income (Loss): The Company recorded a net loss of \$490,843 for the year ending October 31, 2018 compared to net loss of \$742,926 for the same period in 2017, a decrease of \$252,283. The stock-based compensation for options granted of \$354,750 plus a decrease of general and administrative expenses were the key components of the decrease in net loss in 2018 over 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital has been dependent on the revenue generated internally by the Company's subsidiaries, by loans from its officers and directors and by deferral of accrued salaries. There are no agreements or understandings with regard to future loans by or with the officers, directors, principals, affiliates or shareholders of the Company. In the past, officers and directors of the Company have lent or advanced monies to the Company to fund operations, but there are no formal agreements or arrangements for them to continue to do so.

The Company anticipates continually expanding its business through the planned expansion of the Company's marketing of venues in expanded markets. The Company's plans will be limited, however, by its ability to finance such a proposed expansion of its business. If the revenues generated are not sufficient to finance these proposed operations, then the Company will have to scale back its proposed operations. The Company's ultimate success will be based upon whether or not there continues to be a demand for the services that the Company anticipates providing, which is also very dependent on the economy. There can be no assurance that there will be a demand for the Company's services in the future or that the Company will become profitable in providing these services. As the Company's expands its operations, the revenues received, in addition to paying current expenses may increase the Company's capital requirements.

The Company is attempting to secure additional capital from independent sources in the form of equity and debt. The success and ability to meet its capital needs is highly dependent on its success in generating additional revenue and profitability now and in the future.

Working Capital: At October 31, 2018, the Company had working capital of \$642,808 with current assets of \$890,105 and current liabilities of \$247,297 or a current ratio of 3.6 to 1. The current assets consisted of cash of \$677,303, account receivable of \$203,052, inventory of \$2,319 and prepaid expense of \$7,431. The current liabilities of the Company at October 31, 2018 are composed primarily of accounts payable and accrued expenses of \$74,701, accrued liabilities to related party of \$84,210 and deferred revenue of \$88,386.

Operating Activities: Net cash provided by operating activities, during the year ending October 31, 2018 was \$122,534 compared to cash provided of \$31,697 for the same period in 2017. This represents a positive change of \$90,837. The change in cash flow from operating activities is significant from 2018 to 2017 and due to higher sales and a lower loss in 2018 compared to the same time period in 2017

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Financing Activities: Net cash provided by financing was zero for the year ending October 31, 2018 compared to net cash provided by financing activities of \$256,300 for the same period in 2017. Net cash provided in 2017 was due to common stock sold for cash of \$256,300.

As of October 31, 2018, the Company had total assets of \$903,386 and total liabilities of \$247,297. Stockholders' equity as of October 31, 2018 was \$656,089 compared to stockholder's equity of \$569,120 at October 31, 2017. Liabilities increased in 2018 due to increases in accrued liabilities to related party plus higher accounts payable and accrued expenses.

NEED FOR ADDITIONAL FINANCING

The Company's existing capital is sufficient to meet the Company's cash needs if the Company continues to operate its ongoing business as presently conducted through revenues generated from operations of our subsidiary for the next twelve months. The Company secured additional funds; through three private equity financings totaling \$1,248,100; completed during the year ended October 31, 2014, \$100,000 during the year ended October 31, 2015 and \$256,300 during the year ended October 31, 2017. The Company may from time to time may seek additional equity or debt financing as it feels is required to continue the growth of the Company.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements.

Critical Accounting Policies and Recent Accounting Pronouncements

Principles of Consolidation

The consolidated financial statements of the Company include the Company and its wholly-owned subsidiaries Cogent Real Time Systems, Inc (Canada), Skkynet Corp. (Canada), Skkynet Inc (US) and NiC Corporation (Japan). All material intercompany balances and transactions have been eliminated.

Revenue recognition

The Company's revenue is recognized pursuant to ASC 605 "Revenue Recognition." The Company recognizes its revenue from services after the services have been performed. The Company sells software and support services to its clients. Revenue for the software sales and consulting services are recognized when the product and product code is given to the client. Support services revenue is deferred until the service is provided or the period in which that portion of the supports service passes and is then recognized in that time period. Consulting services are billed on completion of the service.

Stock-Based Compensation

The Company accounts for stock-based compensation to employees in accordance with FASB ASC 718. Stock-based compensation to employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The Company accounts for stock-based compensation to other than employees in accordance with FASB ASC 505-50. Equity instruments issued to other than employees are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments and is recognized as expense over the service period. The Company estimates the fair value of stock-based payments using the Black Scholes option-pricing model for common stock options and warrants and the closing price of the Company's common stock for common share issuances.

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The critical accounting policies and account pronouncements are an integral part of the footnotes of the audited financial statements and should be reviewed as part of our discussion of the financial results.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In April 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Topic 606 includes implementation guidance on (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The amendments in this Update are intended render more detailed implementation guidance with the expectation to reduce the degree of judgement necessary to comply with Topic 606.

The Company will implement the transition effective with the quarter reporting beginning November 1, 2018 using the modified retrospective method of transition. Under this method the determination date of open contracts which could affect any adjustments would be November 1, 2018. The open contracts at the time period will be the unfulfilled portions of the maintenance contracts. Based on the cut off treatment of the recognition of revenue on the open contract being determined at the end of the previous period and being no changes in the open obligation requirements, the Company is of the belief there will be no adjustments in the value of the revenue recognized from these contracts.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8: FINANCIAL STATEMENTS and SUPPLEMENTARY DATA.

Financial statements are audited and included in this Form 10-K as an exhibit and are incorporated herein by this reference.

ITEM 9: CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE.

There were no disagreements with accountants on accounting and financial disclosure during the relevant period.

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ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

For purposes of this section, the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Act”) (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO has concluded that the Company's disclosure controls and procedures are not effective because of the identification of a material weakness in our internal control over financial reporting which is identified below, which we view as an integral part of our disclosure controls and procedures.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of October 31, 2018 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework- 2013. Based on its evaluation, our management concluded that there are material weaknesses in our internal control over financial reporting. We lack full time personnel in accounting and financial staff to sufficiently monitor and process financial transactions in an efficient and

timely manner. Our history of losses has severely limited our budget to hire and train enough accounting and financial personnel needed to adequately provide this function. Consequently, we lacked sufficient technical expertise, reporting standards and written policies and procedures. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

This Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting because the attestation report requirement has been removed for "smaller reporting companies" under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Changes in Internal Controls over Financial Reporting

We have not made any changes in our internal controls over financial reporting that occurred during the fourth fiscal period of the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None

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Identification of Directors and Executive Officers of the Company

The following table sets forth the names and ages of all directors and executive officers of the Company and all persons nominated or chosen to become a director, indicating all positions and offices with the Company held by each such person and the period during which they have served as a director:

The principal executive officers and directors of the Company are as follows:

| Name | Age | Director Since | Position |
|-------------------------|------------|-----------------------|---------------------------------------------|
| Mr. Andrew S. Thomas | 55 | November 2011 | Chairman of the Board of Directors and CEO |
| Mr. Paul E. Thomas | 44 | March 2013 | Director, President and Assistant Secretary |
| Mr. Paul Benford | 52 | March 2013 | Director and COO |
| Mr. Lowell Holden | 76 | | CFO and Treasurer |
| Mr. Norman Evans | 64 | August 2013 | Independent Director |
| Mr. Kenneth W. Jennings | 70 | August 2013 | Independent Director |
| Mr. John Adiletta | 70 | September 2014 | Independent Director |

The Directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, Directors will be elected for one-year terms at the annual stockholders' meeting. There is no arrangement or understanding between the Directors and Officers of the Company and any other person pursuant to which any Director or Officer was or is to be selected as a Director or Officer of the Company.

There is no family relationship between or among any Officer and Director except that Andrew S. Thomas and Paul E. Thomas are brothers.

Although each of our employment agreements permit the employee to engage in other business activities, Mr. Andrew S. Thomas and Mr. Paul Benford, respectively, our CEO and COO, devote substantially all of their business activities time to the business of the Company and its subsidiaries, Cogent, Skkynet (Canada), Skkynet (USA) and Skkynet

Japan. Mr. Paul E. Thomas and Mr. Lowell Holden devote not less than 80% and 15%, respectively, of their overall business activities to the business of the Company and its subsidiaries Cogent, Skkynet (Canada), Skkynet (USA) and Skkynet Japan.

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Committees of the Board of Directors

The Company has an audit committee comprising Norman Evans (Chair), Kenneth Jennings and John X Adiletta, each of whom is an “independent” director as determined under the rules of the Exchange Act and NASDAQ and a compensation committee comprising Kenneth Jennings (Chair), John X Adiletta and Norman Evans. The Company currently does not have a nominating committee.

Business Experience: The following is a brief account of the business experience for the past five years of the directors and executive officers, indicating their principal occupations and employment during that period, and the names and principal businesses of the organizations in which such occupations and employment were carried out.

ANDREW S. THOMAS: Mr. Andrew S. Thomas has been the Chief Executive Officer and the Chairman of the Board of Director of Skkynet since November 1, 2011. From May 1995 to the present, Mr. Thomas has been the founder, President and CEO of Cogent Real-Time Systems, Inc. our wholly-owned subsidiary. Prior thereto from 1992-1995 Mr. Thomas was an independent process control consultant and systems integrator and software developer of real time data communications systems. Mr. Thomas received a Master of Applied Science in Engineering from the University of Waterloo in 1991 and a B.A. in Applied Science from the University of Waterloo in 1987. Mr. Andrew Thomas’s qualifications to serve as a director of the Company consist of his experience in our products and services development and strategic planning, and his broad, fundamental understanding of the business drivers affecting the Company.

PAUL E. THOMAS: Mr. Paul E. Thomas has been the President and Assistant Secretary of Skkynet since November 26, 2011 and became a member of the Board of Directors on March 26, 2013. Mr. Paul Thomas has also been Vice President of Intellectual Property for Cogent since January 1, 2012. Mr. Paul Thomas is the brother of our CEO and Board Chairman, Andrew S. Thomas. From September 2008 to the present Mr. Thomas has been the founder and principal of a group of affiliated companies, LifeCycle IP Management, Inc. and LifeCycle Capital Partners, Inc. that are engaged in various IP related businesses including valuations, due diligence, transactions analysis and structuring, strategic partnering and filing and processing IP applications to regulatory authorities. Prior thereto, from January to September 2008, Mr. Thomas was Assistant General Counsel at Iovate Health Sciences at which he managed the global IP portfolio of more than 100 patent families of products. Prior thereto, Mr. Thomas from 2007 to 2008 Mr. Thomas was IP and Corporate Development Counsel at Cipher Pharmaceuticals, Ltd., and during the period between 2000-2007 Mr. Thomas practiced intellectual property law as an associate lawyer at three different law firms in Toronto Canada. Mr. Thomas is a registered patent agent with the U.S Patent and Trademark Office and a registered patent and trademark agent with the Canadian Patent Office. Mr. Thomas received his J.D. from the University of British Columbia in 2000. He also received a Master of Applied Science in Chemical Engineering from the University of British Columbia in 1998 and a B.A in Applied Science, Chemical Engineering from Queen’s University, Kingston in 1995. Mr. Paul Thomas’s qualifications to serve as a director of the Company consist of his experience in fund raising activities for developing companies, public and private, and proper planning for intellectual property development and protection of our products and services.

PAUL BENFORD: Mr. Paul Benford has been the Chief Operating Officer of Skkynet since November 1, 2011 and became a member of our Board of Directors on March 26, 2013. From 1995 to the present Mr. Benford has been the Business Manager of Cogent. Prior thereto, from 1992 through 1995 Mr. Benford was an independent process control consultant and an application engineer. Mr. Benford received a Master of Applied Science in Mineral Process Engineering from the University of British Columbia in 1993, and a B.A. with honors from the Camborne School of Mines in Cornwall, United Kingdom in 1990. Mr. Paul Benford's qualifications to serve as a director of the Company consist of his experience in the fields of strategies of customer development and forms of communication with a variety of corporate constituencies in the industries within which we operate.

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LOWELL HOLDEN: Lowell Holden has been the CFO and Chief Accounting Officer of the Company since March 2012. Since 1983, Mr. Holden has owned and operating his own consulting firm, LS Enterprises, Inc., which provides business consulting, accounting and other services to businesses. Mr. Holden has a broad range of business experience including managing, securing financing, structuring of transactions, and is experienced and knowledgeable in managing relationships with customers, financing institutions and stockholders. He also serves as CFO and director of Nascent Biotech (NBIO), PTS, Inc (PTSH) and CFO and director of EMR Technology Solutions Inc. Mr. Holden also has a background in assisting companies in fulfilling their financial auditing and SEC reporting requirements. Mr. Lowell Holden has a Bachelor of Science degree from Iowa State University.

XAVIER MESROBIAN: Mr. Xavier Mesrobian has been the Vice President of Sales and marketing since October 1, 2013. He has direct experience with cutting edge venture-backed software start-ups and possesses extensive experience in technical sales. Since 2008, Mr. Mesrobian was an Account Development Executive at ADP Inc., Dealer Services Division. Prior to his work at ADP, from 2003 to 2007, he was Director of Product Management and Business Development at Decisiv, Inc., a leading provider of a Service Relationship Management (SRM) platform, and prior thereto he was the Director of Market Development at Novarra Inc., an internet mobility software company. Mr. Mesrobian received a BA from Carleton University in Economics.

NORMAN EVANS: Mr. Norman Evans has been a director of the Company since August 2013 and has retired as the Chief Financial Officer of Cipher Pharmaceuticals Inc., a Canadian publicly-listed pharmaceutical company. Mr. Evans is also a Chartered Accountant with over 25 years of business experience. Prior to his work at Cipher, from 1996 to 2006, Mr. Evans was Vice-President of Finance at MDS Pharma Services, a pharmaceutical services company, and prior thereto was a Partner at Ernst & Young Inc. Mr. Evans received a B.Sc. from Concordia University and received his Canadian Chartered Accountant designation in 1980. Mr. Evans' qualifications to serve as a director of Skkynet consist of his experience in conducting audits, corporate governance and financial reporting for public companies.

KENNETH JENNINGS: Mr. Kenneth Jennings has been a director if the Company since August 2013 and is also Vice President of Kinesis Identity Security System Inc., a software security company. Prior to his work at Kinesis, from 1991 to 2009, Mr. Jennings held senior roles including VP of Manufacturer Solutions & Consulting, VP of Marketing, and VP of Sales at ADP Dealer Services, a division of ADP Inc., the payroll outsourcing company. Mr. Jennings' qualifications to serve as a Director of Skkynet consist of over 30 years of experience in business development, strategy and in leading business-to-business software sales and marketing teams.

JOHN X. ADILETTA: Mr. Adiletta has been a director of the Company since September 2014. Since 2015, Mr. Adiletta has been the President and Chief Executive Officer of EMR Technology Solutions, Inc., a U.S. based holding company that acquires medical technology related products and services. As managing partner of PCS Management Group since its founding in 1993, Mr. Adiletta has hands on experience in mergers and acquisitions as they pertain to medical and security products and services, telecommunications providers, data carriers, and related suppliers. He has also served on boards of directors for technology companies in various capacities including the audit compensation

and corporate governance committee.

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Conflict of Interest

Although each of our employment agreements permit the employee to engage in other business activities, Mr. Andrew S. Thomas and Mr. Paul Benford, respectively, our CEO and COO, devote substantially all of their business activities time to the business of the Company and its subsidiary, Cogent. Mr. Paul E. Thomas and Mr. Lowell Holden devote not less than 80% and 15%, respectively, of their overall business activities to the business of the Company and its subsidiary Cogent. There will be occasions when the time requirements of the Company's business conflict with the demands of their other business and investment activities. Such conflicts may require that the Company attempt to employ additional personnel. There is no assurance that the services of such persons will be available or that they can be obtained upon terms favorable to the Company.

There is no procedure in place which would allow the Officers and Directors to resolve potential conflicts in an arms-length fashion. Accordingly, they will be required to use their discretion to resolve them in a manner which they consider appropriate.

Director or Officer Involvement in Certain Legal Proceedings

Our directors and executive officers were not involved in any legal proceedings as described in Item 401(f) of Regulation S-K in the past ten years.

Board Independence

As currently constituted and applying the rules of NASDAQ Norman Evans, Kenneth Jennings and John X Adiletta are the members of our Board of Directors that are independent. We are committed to eventually establishing a board in which a majority of our members consist of independent directors, as defined under the NASDAQ rules. Our ability to implement this goal will depend upon the growth of the Company and our ability to attract and compensate strategic persons willing to serve in that function.

Code of Ethics

We have adopted a Code of Ethics which covers the Chief Executive Officer and Chief Financial Officer, which is administered and monitored by the Board of Directors as a whole.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the rules of the Securities and Exchange Commission (SEC) require our directors, executive officers and persons who own more than 10% of our Class A common stock to file reports of their ownership and changes in ownership of our Class A common stock with the SEC. Based solely upon a review of copies of such forms filed on Forms 3, 4, and 5, and amendments thereto furnished to us, we determined that no director, executive officer or beneficial owner of more than 10% of our common stock failed to file a report on a timely basis during the year ended October 31, 2018, except for:

| Name | Position | Filed Reports Timely |
|------------------|-------------------|-----------------------------|
| Andrew S. Thomas | Officer, Director | Yes |
| Paul E. Thomas | Officer, Director | Yes |
| Paul Benford | Officer, Director | Yes |
| Lowell Holden | Officer | Yes |
| Norman Evans | Director | Yes |
| Kenneth Jennings | Director | Yes |
| John X Adiletta | Director | Yes |
| Michael Thomas | Advisor | Yes |

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During fiscal 2018 the Company paid its officers and directors an aggregate of \$254,101 plus an aggregate accrued salaries and consulting fees of \$198,025. In 2018, the Company's officers and directors contributed \$198,025 to capital for an aggregate of 75,822 shares of common stock and 333,400 options.

The following tables sets for the compensation for all officers and directors during the past three years:

DIRECTORS AND OFFICERS - COMPENSATION

| Name and Principal Position | Year | Annual compensation | | | Long-term compensation | | | All other compen- sation (\$) ⁽¹⁾ | Total Compensation |
|---------------------------------------------------------|------|---------------------|---------------|-------------------------------------------|--------------------------------------------------------|------------------------------------------------|-------------------------|----------------------------------------------------------|-----------------------|
| | | Salary (\$)(8) | Bonus (\$) | Other annual compen- sation (\$) | Awards under- lying stock award(s) (\$) | Payouts options/ SARs payouts (\$) | LTIP payouts (\$) | | |
| Andrew S. Thomas, (1,2,5) Chief Executive Officer | 2018 | 108,803 | - | - | - | - | - | - | 108,803 |
| | 2017 | 108,446 | - | - | - | - | - | - | 108,446 |
| | 2016 | 104,808 | - | - | - | - | - | - | 104,808 |
| Paul Benford, (1,2) Chief Operating Officer | 2018 | 108,803 | - | - | - | - | - | - | 108,803 |
| | 2017 | 107,899 | - | - | - | - | - | - | 107,899 |
| | 2016 | 105,154 | - | - | - | - | - | - | 105,154 |
| Lowell Holden, (3) Chief Financial Officer | 2018 | 48,000 | - | - | - | - | - | - | 48,000 |
| | 2017 | 48,000 | - | - | - | - | - | - | 48,000 |
| | 2016 | 48,000 | - | - | - | - | - | - | 48,000 |
| Paul E. Thomas, (4) President | 2018 | 108,803 | - | - | - | - | - | - | 108,803 |
| | 2017 | 107,599 | - | - | - | - | - | - | 107,599 |
| | 2016 | 104,981 | - | - | - | - | - | - | 104,981 |

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| | | | | | | | | | |
|------------------------------------------|------|--------|---|--------|---|---|---|--------|---------|
| Xavier Mesrobin, Vice President Sales | 2018 | 77,717 | - | - | - | - | - | 50,965 | 128,682 |
| | 2017 | 76,494 | - | - | - | - | - | 26,773 | 103,267 |
| | 2016 | 75,439 | - | - | - | - | - | 41,446 | 116,885 |
| Norman Evans, Director (6) | 2018 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2017 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2016 | - | - | 30,000 | - | - | - | - | 30,000 |
| Kenneth Jennings, Director(6) | 2018 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2017 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2016 | - | - | 30,000 | - | - | - | - | 30,000 |
| John X Adiletta, Director(6) | 2018 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2017 | - | - | 30,000 | - | - | - | - | 30,000 |
| | 2016 | - | - | 30,000 | - | - | - | - | 30,000 |

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- (1) Mr. Andrew S. Thomas and Mr. Benford received cash salary paid by Cogent Real-Time Systems Inc. of \$58,701 and \$75,796 respectively. Mr. Andrew S. Thomas and Mr. Benford accrued salaries of \$50,102 and \$33,007 during the year ended October 31, 2018, respectively.
- (2) Mr. Andrew S. Thomas and Mr. Benford had accrued salaries totaling \$50,127 and \$33,007, respectively which was not paid but was contributed to capital at the end of the year for 104,600 and 68,100 options, respectively.
- (3) Mr. Holden through LS Enterprises, Inc., a company of which he is President, received \$33,600 for serving as an officer and accrued \$14,400 during the year for total salary of \$48,000. As of October 31, 2018, \$14,400 of accrued compensation was contributed to capital for 29,589 of the Company's common stock.
- (4) Mr. Paul E. Thomas received cash payments of \$75,796 for consulting services through LifeCycle IP Management Inc., which he owns, and \$33,007 was accrued. As of October 31, 2018, the accrued salary of \$33,007 was contributed to capital for 68,100 options.
- (5) Ms. Shizuka Thomas, wife of Mr. Andrew S. Thomas, was paid \$41,967 during fiscal year 2018 for services as a Japanese business manager and translator.
- (6) Directors fees of \$67,500 for the three outside directors were accrued and \$22,500 was paid. As of October 31, 2018, the three directors contributed the accruals to capital for 46,233 shares of the Company's common stock for Mr. Adiletta and Mr. Evans and Mr. Jennings each received 46,300 options.
- (7) Mr. Mesrobin was paid \$77,717 in salary and earned \$50,965 in commissions of which \$46,618 was paid in cash and \$7,347 was accrued.
- (8) Compensation is calculated in US dollars for reporting purposes causing a variance from year to year on persons paid in Canadian dollars.

Employment Agreements

We and our subsidiary Cogent have employment agreements with all of our executive officers. The terms and conditions of each such agreement are described below.

Effective January 1, 2012, our subsidiary, Cogent, entered into an Employment Agreement (the "Agreement") with our CEO, Andrew S. Thomas commencing January 1, 2012. Mr. Thomas will perform identical duties for our Company as well. The Agreement is for a three-year term commencing on January 1, 2012 and provides for automatic renewal of successive one-year terms unless notice is provided ninety (90) days prior to the expiration of the then current term. The agreement provides that Mr. Thomas is to receive an annual base salary of CDN\$140,000, subject to annual increase at the discretion of our Board of Directors. In addition, Mr. Thomas is eligible for an annual cash bonus in an amount to be determined by and otherwise subject to the discretion of the Board of Directors. Under the Agreement, this determination is to be based upon the Board of Directors review of Mr. Thomas's performance. While employed with the Company, the Agreement allows Mr. Thomas to engage in other limited business activities that are not competitive with and do not involve the Company, subject to the prior disclosure to the Company. The Employment Agreement permits Mr. Thomas to terminate his employment in the event of a change of control or certain enumerated material breaches thereof by the Company.

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Effective January 1, 2012, our subsidiary, Cogent, entered into an Employment Agreement (the “Agreement”) with our COO, Paul Benford commencing January 1, 2012. Mr. Benford will perform identical duties for our Company as well. The Agreement is for a three-year term commencing on January 1, 2012 and provides for automatic renewal of successive one-year terms unless notice is provided ninety (90) days prior to the expiration of the then current term. The agreement provides that Mr. Benford is to receive an annual base salary of CDN \$140,000, subject to annual increase at the discretion of our Board of Directors. In addition, Mr. Benford is eligible for an annual cash bonus in an amount to be determined by and otherwise subject to the discretion of the Board of Directors. Under the Agreement, this determination is to be based upon the Board of Directors review of Mr. Benford’s performance. While employed with the Company, the Agreement allows Mr. Benford to engage in other limited business activities that are not competitive with and do not involve the Company, subject to the prior disclosure to the Company. The Employment Agreement permits Mr. Benford to terminate his employment in the event of a change of control or certain enumerated material breaches thereof by the Company.

Effective January 1, 2012, our subsidiary, Cogent, entered into an Employment Agreement (the “Agreement”) with its Vice President of Intellectual Property, Paul E. Thomas commencing January 1, 2012. Mr. Paul Thomas will also serve as President for our Company as well. The Agreement is for a three-year term commencing on January 1, 2012 and provides for automatic renewal of successive one-year terms unless notice is provided ninety (90) days prior to the expiration of the then current term. The agreement provides that Mr. Paul Thomas is to receive an annual base salary of CDN \$140,000, subject to annual increase at the discretion of our Board of Directors. In addition, Mr. Thomas is eligible for an annual cash bonus in an amount to be determined by and otherwise subject to the discretion of the Board of Directors. Under the Agreement, this determination is to be based upon the Board of Directors review of Mr. Paul Thomas’s performance. While employed with the Company, the Agreement allows Mr. Paul Thomas to engage in other limited business activities that are not competitive with and do not involve the Company, subject to the prior disclosure to the Company. The Employment Agreement permits Mr. Paul Thomas to terminate his employment in the event of a change of control or certain enumerated material breaches thereof by the Company.

Effective April 16, 2012, the Company entered into an Employment Agreement (the “Agreement”) with our Chief Financial Officer, Lowell T. Holden commencing April 16, 2012. The Agreement is for an eight-month term commencing on April 16, 2012 and provides for automatic renewal of successive quarterly terms unless notice is provided ninety (90) days prior to the expiration of the then current term. The agreement provides that Mr. Holden is to receive an annual base salary of \$48,000, subject to annual increase at the discretion of our Board of Directors. In addition, Mr. Holden is eligible for an annual cash bonus in an amount to be determined by and otherwise subject to the discretion of the Board of Directors. Under the Agreement, this determination is to be based upon the Board of Directors review of Mr. Holden’s performance. While employed with the Company, the Agreement allows Mr. Holden to engage in other limited business activities that are not competitive with and do not involve the Company, subject to the prior disclosure to the Company. The Employment Agreement permits Mr. Holden to terminate his employment in the event of a change of control or certain enumerated material breaches thereof by the Company.

Effective October 1, 2013, the Company entered into an Employment Agreement (the “Agreement”) with our Vice President, Sales & Marketing, Xavier Mesrobian commencing November 1, 2013 for an indefinite term. The agreement provides that Mr. Mesrobian is to receive an annual base salary of CDN\$100,000, subject to annual

increase at the discretion of our Board of Directors, and a commission calculated quarterly based on sales/revenue growth of the Company. In addition, Mr. Mesrobian is eligible for an annual cash bonus in an amount to be determined by and otherwise subject to the discretion of the Board of Directors. Under the Agreement, this determination is to be based upon the Board of Directors review of Mr. Mesrobian's performance. The Employment Agreement permits Mr. Mesrobian to terminate his employment in the event of a change of control or certain enumerated material breaches thereof by the Company.

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Directors each receive \$2,500 per month in fees that had been accrued but not paid and are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meeting of the Board of Directors.

The Company has no material bonus or profit-sharing plans pursuant to which cash or non-cash compensation is or may be paid to the Company's directors or executive officers.

The Company has no compensatory plan or arrangements, including payments to be received from the Company, with respect to any executive officer or director, where such plan or arrangement would result in any compensation or remuneration being paid resulting from the resignation, retirement or any other termination of such executive officer's employment or from a change-in-control of the Company or a change in such executive officer's responsibilities following a change-in-control and the amount, including all periodic payments or installments where the value of such compensation or remuneration exceeds \$100,000 per executive officer.

During the last completed fiscal year, no funds were set aside or accrued by the Company to provide pension, retirement or similar benefits for Directors or Executive Officers.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, certain information concerning the beneficial ownership of our common stock, by (i) each person known by us to own beneficially five per cent (5%) or more of the outstanding shares of each class, (ii) each of our directors and executive officers, and (iii) all of our executive officers and directors as a group.

The number of shares beneficially owned by each 5% stockholder, director or executive officer is determined under the rules of the Securities and Exchange Commission, or SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power and also any shares that the individual or entity has the right to acquire within 60 days after October 31, 2015 through the exercise of any stock option, warrant or other right, or the conversion of any security. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such power with his or her spouse) with respect to the shares set forth in the following table. The inclusion in the table below of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.

| Name and Address (1) | Shares of Common Stock Beneficially Owned | Percent of Common Stock | Exercisable Options |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------|------------------------|
| Andrew S. Thomas 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 21,702,000 | 42.25 | 713,100 |
| Paul E. Thomas 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 5,000,000 | 9.73 | 475,600 |
| Paul Benford 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 8,298,000 | 16.16 | 459,100 |
| Lowell Holden (2) 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 153,989(2) | 0.29 | 172,500 |
| Norman Evans 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 60,000 | 0.11 | 253,100 |
| Kenneth Jennings 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 123,000 | 0.24 | 253,100 |
| John X Adiletta 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 185,533 | 0.36 | 55,000 |
| Xavier Mesrobian 2233 Argentia Road, Suite 306, Mississauga, Ontario, Canada, L5N 2X7 | 24,500 | 0.00 | 364,500 |
| All directors and officers as a group | 35,547,022 | 69.14 | 3,713,500 |

(1) Denotes officer or director.

(2) Mr. Holden holds 148,989 of his shares directly and 5,000 indirectly through a related party.

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There are no arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change of control of the Company.

Options

We have adopted a 2012 Stock Option Plan (the “2012 Plan”) under which we are authorized to issue up to a maximum of 10,000,000 incentive stock options and non-qualified stock options to our directors, officers, employees and consultants. The 2012 Plan has been approved by our stockholders. The 2012 Plan authorizes the Board of Directors or a committee thereof, to grant awards of incentive stock options and non-qualified stock options upon such terms and conditions as the Board may determine. The total number of options granted and outstanding as of October 31, 2018, is 6,438,800 options. Currently, the 2012 Plan is administered by the Board of Directors.

We currently have 7,772,200 options issued and outstanding under our 2012 Stock Option Plan which have been granted to four key employees, four officers, two consultants and three directors. Each of the foregoing individuals has been awarded options which will vest in equal annual installments over a five-year period with the first 20% vesting at the date of grant. All of the options are exercisable at a purchase price range of \$0.01 to \$1.40 per share.

The following table sets forth the option holder as of October 31, 2018:

| Recipient | Title | Number Options |
|-------------------------------------|----------------------|---------------------------|
| Andrew Thomas | Officer and Director | 713,100 |
| Paul Benford | Officer and Director | 459,100 |
| Paul Thomas | Officer and Director | 475,600 |
| Lowell Holden | Officer | 202,500 |
| Xavier Mesrobian | Officer | 1,249,500 |
| Ken Jennings | Director | 253,100 |
| Norm Evans | Director | 253,100 |
| John X Adiletta | Director | 57,500 |
| Employees and consultant as a group | - | 4,108,700 |
| Total | | 7,772,200 |

Equity Compensation Plan Information

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders | 10,000,000 | -- | 2,212,800 |
| Equity compensation plans not approved by security holders | -- | -- | 2,212,800 |
| Total | 10,000,000 | -- | |

The Company utilizes the shares available under the Plan described above to issue shares of stock as compensation to employees, consultants and officers and directors. At the end of each quarter, the Board of Directors of the Company determines the number of shares to be issued pursuant to the Plan.

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

Sakura Software, a corporation owned by our CEO and Chairman of the Board of Directors, Andrew S. Thomas, and Benford Consultancy, a corporation owned by our COO and a member of our Board of Directors, Paul Benford, own, respectively, 72.34% and 27.66% of the issued and outstanding shares of Real Innovations International LLC, (“Real Innovations”) a corporation organized under the laws of Nevis, West Indies. In March 2012, Cogent, our operating subsidiary, assigned all of its intellectual property including the pending patent applications for its real-time data transmission and display technology (the “IP”) to Real Innovations under an assignment of intellectual property agreement (the “Assignment Agreement”). 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.

Real Innovations, in turn, entered into a master intellectual property license agreement (the “License Agreement”) with Cogent for all of the same IP. Under the License Agreement Real Innovations granted a royalty-free license in perpetuity to Cogent for the use and exploitation of the IP in return for which Cogent agreed to: (i) pay all operating expenses of Real Innovations incurred in connection with the continued prosecution of pending patent applications and others that may be prepared; (ii) prosecute all claims for infringement of the IP; (iii) defend and indemnify Real Innovations from and against all claims of infringement of the IP asserted by third parties against Real Innovations, Cogent or our Company; (iv) purchase liability insurance in favor of Real Innovations for this purpose. Under the termination provision of the licenses agreement, there is no unilateral right of termination. Termination may occur by mutual consent of the parties, the Company ceasing doing business, by breach by the Company or by the Company failing to maintain the license and the support to prosecute and protect the license under applicable laws.

Under the License Agreement, Messrs. Andrew S. Thomas and Paul Benford will benefit indirectly from their indirect ownership of all of the shares of Real Innovations to the extent of any such payments or other undertakings by Cogent on behalf of Real Innovations, but the exact amount of these benefits cannot be determined at this time.

Mr. Andrew S. Thomas and Mr. Paul Benford were paid \$58,701 and \$75,796 as salary, respectively, for the fiscal year ended October 31, 2018 for serving as the CEO and the Business Manager of Cogent. In addition, each of them accrued salaries but did not receive \$50,102 (Mr. Thomas) and \$33,007 (Mr. Benford). Ms. Shizuka Thomas, the wife of Mr. Andrew S. Thomas, received \$41,967 as salary for the fiscal year ended October 31, 2018 for services as a Japanese business manager and translator. As of October 31, 2018, each contributed their accrued salary \$50,102 (Mr. Thomas) and \$33,007 (Mr. Benford) to capital for 104,600 and 68,100 options, respectively.

Mr. Lowell Holden, the Chief Financial Officer of the Company, was paid \$33,600 during the year ending October 31, 2018 and accrued \$ 14,400 in consulting fees in the Company. As of October 31, 2018, Mr. Holden contributed \$14,400 to capital for 29,589 shares of Common stock.

Mr. Paul E. Thomas, the President of the Company was paid \$75,796 for services for the fiscal year ended October 31, 2018 and accrued \$33,007 in salary in the subsidiary. As of October 31, 2018, Mr. Thomas contributed \$33,007 of accrued salary to capital for 68,100 options.

On October 31, 2017, the Officers and directors of the Company elected to forgo their accrued compensation for the fiscal year ended 2017 in exchange for shares of common stock and options. The \$289,984 of accrued compensation was exchanged for 584,900 options granted with a value of \$240,078 and 123,000 shares of common stock was exchanged for \$49,200 of accrued compensation

On October 31, 2018, the Officers and directors of the Company elected to forgo their accrued compensation for the fiscal year ended 2018 in exchange for shares of common stock and options. The \$198,025 of accrued compensation was exchanged for 333,400 options granted with a value of \$193,090 and 75,822 shares of common stock was exchanged for \$36,909 of accrued compensation.

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| | Accrued compensation | Options Issued for accrued compensation | Common stock issued for accrued compensation |
|---------------------|---------------------------------|------------------------------------------------------------|-----------------------------------------------------------------|
| Andrew Thomas | \$ 50,102 | 104,600 | -- |
| Paul Benford | \$ 33,007 | 68,100 | -- |
| Paul Thomas | \$ 33,007 | 68,100 | -- |
| Lowell Holden | \$ 14,409 | -- | 29,589 |
| All three directors | \$ 67,500 | 92,600 | 46,233 |
| Total | \$ 198,025 | 333,400 | 75,822 |

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICE.

The following table presents for each of the last two fiscal years the aggregate fees billed in connection with the audits of our financial statements and other professional services rendered by our independent registered public accounting firm Malone Bailey, LLP Certified Public Accountants.

| | 2018 | 2017 |
|--------------------|-------------|-------------|
| Audit fees | \$ 33,500 | 30,000 |
| Audit related fees | - | - |
| Tax fees | - | - |
| All other fees | - | - |

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accounting firm in connection with statutory and regulatory filings or engagements. Audit-related fees represent professional services rendered for assurance and related services by the accounting firm that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees. Services provided by the audit firm are reviewed and approved by the audit committee prior to engagement of the audit firm.

Tax fees represent professional services rendered by the accounting firm for tax compliance, tax advice, and tax planning. All other fees represent fees billed for products and services provided by the accounting firm, other than the services reported for in the other categories.

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PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SECHEDULES.

(a) The following financial statements and schedules are filed as part of this report:

Consolidated Audited Financial Statements of Skkynet Cloud Systems Inc. for years ended October 31, 2018 and 2017.

(b)

Exhibit

Number Description

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Exhibit filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Las Vegas, State of Nevada, on February 13, 2019.

SKKYNET CLOUD SYSTEMS, INC.

By: */s/ Andrew Thomas*
Andrew Thomas,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 13, 2019.

| Signature | Title |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------|
| <i>/s/ Andrew Thomas</i> Andrew Thomas | Chairman, Chief Executive Officer (Principal Executive Officer) and Director |
| <i>/s/ Paul Thomas</i> Paul Thomas | Director, President |
| <i>/s/ Paul Benford</i> Paul Benford | Director and COO |
| <i>/s/ Lowell Holden</i> Lowell Holden | Chief Financial Officer (Principal Financial Officer), Principal Accounting Officer, Treasurer |
| <i>/s/ Norma Evans</i> Norma Evans | Director |
| <i>/s/ Kenneth Jennings</i> Kenneth Jennings | Director |
| <i>/s/ John X Adiletta</i> John X Adiletta | Director |

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SKKYNET CLOUD SYSTEMS, INC.

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| <u>Consolidated Statements of Operations for the Years Ended October 31, 2018 and 2017</u> | F-4 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Skkynet Cloud Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Skkynet Cloud Systems, Inc. and its subsidiaries (collectively, the “Company”) as of October 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also

included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

www.malonebailey.com

We have served as the Company's auditor since 2013.

Houston, Texas

February 13, 2019

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SKKYNET CLOUD SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

| | October 31, | |
|------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 677,303 | \$ 582,671 |
| Accounts receivable | 203,052 | 147,174 |
| Inventory | 2,319 | 2,634 |
| Prepaid | 7,431 | 19,528 |
| Total current assets | 890,105 | 752,007 |
| Property and equipment, net of accumulated depreciation of, respectively net of depreciation of \$81,713 and \$82,721 | 6,060 | 961 |
| Other assets | 7,221 | 5,996 |
| Total assets | \$ 903,386 | \$ 758,964 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expense | \$ 74,701 | \$ 39,009 |
| Accrued liability - related parties | 84,210 | 47,631 |
| Deferred Income | 88,386 | 103,204 |
| Total current liabilities | 247,297 | 189,844 |
| Total liabilities | 247,297 | 189,844 |
| Stockholders' equity: | | |
| Preferred stock; \$0.001 par value, 5,000,000 shares authorized, 5,000 shares issued and Outstanding | 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 authorized, 51,363,022 and 51,287,266 issued and outstanding, respectively | 51,364 | 51,288 |
| Additional paid-in capital | 5,832,725 | 5,240,833 |
| Accumulated Other Comprehensive Income (loss) | (74,643) | (60,487) |
| Accumulated deficit | (5,347,023) | (4,856,180) |
| Total stockholders' equity | 656,089 | 569,120 |
| Total liabilities and stockholders' equity | \$ 903,386 | \$ 758,964 |

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

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

| | Years Ended October 31, | |
|-----------------------------------------------|--------------------------------|--------------|
| | 2018 | 2017 |
| Revenue | \$ 1,466,412 | \$ 1,336,316 |
| Cost of goods sold | 50,921 | 32,254 |
| Gross profit | 1,415,491 | 1,304,062 |
| Operating expenses: | | |
| General and administrative expense | 1,915,349 | 2,053,758 |
| Depreciation | 496 | 701 |
| Income (loss) from operations | (500,354) | (750,397) |
| Other income (expenses): | | |
| Other income | 1,128 | 1,132 |
| Loss on settlement of liabilities | (39,193) | -- |
| Currency exchange | 15,301 | (26,978) |
| Total other income (expense) | (22,764) | (25,846) |
| Net (loss) before taxes | (523,118) | (776,243) |
| Corporate tax refund | 32,275 | 33,317 |
| Net (loss) | \$ (490,843) | \$ (742,926) |
| Preferred dividends | (11,620) | (11,620) |
| Net loss to common shareholders | (502,463) | (754,546) |
| Foreign currency translation adjustments | (14,156) | 14,911 |
| Comprehensive (loss) | (516,619) | (739,635) |
| Net (loss) per share, basic and diluted | \$ (0.01) | \$ (0.01) |
| Weighted average number of shares outstanding | 51,328,090 | 51,057,293 |

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

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Table of Contents**SKKYNET CLOUD SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****YEARS ENDED October 31, 2018 AND 2017**

| | Common Stock | | Preferred Stock | | Series B Preferred Convertible Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Comprehensive Loss | Total Stockholders' Equity (Deficit) |
|-----------------------------------------------------------------|--------------|-----------|-----------------|--------|--------------------------------------|------------|----------------------------|---------------------|--------------------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance as of October 31, 2016 | 50,931,266 | \$ 50,932 | 5,000 | \$ 5 | 193,661 | \$ 193,661 | \$ 4,190,320 | \$ (4,113,254) | \$ (75,398) | \$ 246,266 |
| Common stock issued for cash | 233,000 | 233 | -- | -- | -- | -- | 256,067 | -- | --- | 256,300 |
| Common stock issued for accrued compensation to related parties | 123,000 | 123 | -- | -- | -- | -- | 49,077 | -- | -- | 49,200 |
| Options issued for contribution to capital | -- | -- | -- | --- | -- | -- | 240,784 | -- | -- | 240,784 |
| Stock option expense | -- | -- | -- | -- | -- | -- | 504,585 | -- | -- | 504,585 |
| Change due to currency translation | -- | -- | - | -- | -- | -- | -- | -- | 14,911 | 14,911 |
| Net loss | -- | -- | -- | -- | --- | -- | -- | (742,926) | -- | (742,926) |
| Balance as of October 31, 2017 | 51,287,366 | \$ 51,288 | 5,000 | \$ 5 | 193,661 | \$ 193,661 | \$ 5,240,833 | \$ (4,856,180) | \$ (60,487) | \$ 569,129 |
| Common stock issued for accrued compensation to related | 75,756 | 76 | -- | -- | -- | -- | 44,052 | -- | -- | 44,128 |

| | | | | | | | | | | | |
|------------------------------------------------------------|------------|-----------|-------|------|---------|------------|--------------|----------------|-------------|------------|--|
| parties | | | | | | | | | | | |
| Options issued for accrued compensation to related parties | -- | -- | -- | -- | -- | -- | 193,090 | -- | -- | 193,090 | |
| Stock option expense | -- | -- | -- | -- | -- | -- | 354,750 | -- | -- | 354,750 | |
| Change due to currency translation | -- | -- | -- | -- | -- | -- | -- | -- | (14,156) | (14,156) | |
| Net loss | -- | -- | -- | -- | -- | -- | -- | (490,843) | -- | (490,843) | |
| Balance at October 31, 2018 | 51,363,022 | \$ 51,364 | 5,000 | \$ 5 | 193,661 | \$ 193,661 | \$ 5,832,725 | \$ (5,347,023) | \$ (74,643) | \$ 656,080 | |

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

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SKKYNET CLOUD SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended October 31, | |
|------------------------------------------------------------------------------------------|-------------------------|----------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (490,843) | \$ (742,926) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 496 | 701 |
| Loss on settlement of accrued liabilities | 39,193 | -- |
| Option based compensation | 354,750 | 504,585 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (58,486) | 12,242 |
| Inventory | 311 | 1,117 |
| Prepaid and other assets | 10,743 | (4,834) |
| Accounts payable and accrued expense | 27,082 | (11,996) |
| Accrued liability-related party | 252,709 | 268,221 |
| Deferred revenue | (13,421) | 4,596 |
| Net cash provided by operating activities | 122,534 | 31,697 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | -- | 256,300 |
| Net cash provided by financing activities | -- | 256,300 |
| Effects of foreign currency translation | (27,902) | 27,814 |
| Net increase in cash | 94,632 | 315,811 |
| Cash – beginning of year | 582,671 | 226,860 |
| Cash – end of year | \$ 677,303 | \$ 582,671 |
| SUPPLEMENT DISCLOSURES: | | |
| Interest paid | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Contribution of accrued compensation to capital-related parties | \$ - | \$ 289,984 |
| Shares issued for conversion of accrued salary | \$ 36,909 | \$ - |
| Options issued for conversion of accrued salary and commission | \$ 161,116 | \$ - |

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

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SKKYNET CLOUD SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS

Skkynet Cloud Systems, Inc. (Skkynet), a Nevada Corporation headquartered in Toronto, Canada was formed on August 31, 2011. Skkynet operates its business through its wholly-owned subsidiaries Cogent Real-Time Systems, Inc. (Cogent)(Canada), Skkynet Corp (Canada), Skkynet, Inc. (USA) and Skkynet Japan (formally NiC Corporation) (NiC) (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.

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 and we had nineteen million (19,000,000) shares outstanding and \$8,720 of net assets. This transaction was accounted for as a reverse merger and recapitalization. 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.

On November 1, 2014, the Company acquired all the outstanding shares of Skkynet Japan (formally Nic Corporation), based in Japan, for \$110,000 in cash plus 50,000 shares of common stock. The Company determined in accordance with ASC 805-10-25-6 that the 50,000 shares of common stock was valued at the closing price on the date of purchase at \$1.49 for a total value of \$74,500. In accordance with purchase acquisition accounting, the company initially allocated the consideration to the net tangible and identifiable intangible assets, based on their estimated fair values as of the date of acquisition. Customer Lists represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements of the Company include the Company and its wholly-owned subsidiaries Cogent Real Time Systems, Inc (Canada), Skkynet Corp. (Canada), Skkynet Inc (US) and Skynet Japan (formally NiC Corporation) (Japan). All material intercompany balances and transactions have been eliminated.

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Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency in presentation with the current year presentation. The footnotes were added to present the sales by geographic area and line of business. These reclassifications had no effect on the reported results of operations.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Revenue recognition

The Company enters into sales that can include various combinations of software licenses, embedded hardware and services. Where certain elements are delivered over different periods of time, and when allowed under U.S. GAAP, revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. We use a hierarchy to determine the fair value to be used for allocating revenue to elements: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence, and (iii) best estimate of selling price ("ESP"). Generally, VSOE is the price charged when the deliverable is sold separately. ESPs are established as best estimates of what the selling prices would be if the deliverables were sold regularly on a stand-alone basis. Our process for determining ESPs requires judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable."

The Company sells one year maintenances programs with the total sale amount being collected upon the sale of the plan. The plan is for twelve consecutive months. Revenue is recognized at the end of each consecutive month with the balance of the amount collected carried as deferred revenue.

Accounts receivable

Accounts receivable are carried at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable include receivables from customers that have received software and support from the Company.

Bad debt expense is a recognition of uncollectable receivables based on past years' experience and management's estimate of likely losses for the year. No allowance for bad debt was considered necessary for the years ended October 31, 2018 and October 31, 2017, respectively.

Inventory

Inventories are stated at the lower of cost of market using the first-in, first-out (FIFO) cost method of accounting.

Property and equipment

Property and equipment are carried at the cost of acquisition and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance is expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

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Foreign currency translation

The Company's functional and reporting currency is in U.S. dollars. The consolidated financial statements of the Company are translated to U.S. dollars in accordance with ASC 830-30, "*Foreign Currency Translation*". Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. The Company has not, to the date of these consolidated financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Impairment of long-lived assets

The Company reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical-cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the asset by comparing the undiscounted future net cash flows expected to result from the asset to its carrying value. If the carrying value exceeds the undiscounted future net cash flows of the asset, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived asset. Fair value is estimated based upon either discounted cash flow analysis or estimated salvage value.

Basic and diluted net income per share

Basic and diluted net income per share calculations are calculated on the basis of the weighted average number of common shares outstanding during the year. They include the dilutive effect of common stock equivalents in years with net income. For the years ended October 31, 2018 and 2017, 7,772,200 and 7,223,800 potentially issuable shares of common stock from stock options have been excluded from the calculation because their effect would be antidilutive to the Company's net losses. Basic and diluted net income per share is the same due to net losses during both periods.

Income Taxes

Income taxes are provided in accordance with Accounting Standards Codification ("ASC"), Topic 740 Accounting for Income Taxes. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss carry forwards. Deferred tax expense (benefit) results from the net change during the

year of deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Income taxes for subsidiaries Cogent Real-Time Systems and Skkynet Japan are subject to the tax statutes in their country of domicile which are Canada and Japan.

Stock-Based Compensation

The Company accounts for stock-based compensation to employees in accordance with FASB ASC 718. Stock-based compensation to employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The Company accounts for stock-based compensation to other than employees in accordance with FASB ASC 505-50. Equity instruments issued to other than employees are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments and is recognized as expense over the service period. The Company estimates the fair value of stock-based payments using the Black Scholes option-pricing model for common stock options and warrants and the closing price of the Company's common stock for common share issuances.

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Related Parties

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.”

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In April 2016, the FASB issued ASU 2016–10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Topic 606 includes implementation guidance on (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended render more detailed implementation guidance with the expectation to reduce the degree of judgement necessary to comply with Topic 606.

The Company will implement the transition effective with the quarter reporting beginning November 1, 2018, using the modified retrospective method of transition. Under this method the determination date of open contracts which could affect any adjustments would be November 1, 2018. The open contracts at the time period will be the unfulfilled

portions of the maintenance contracts. Based on the cut off treatment of the recognition of revenue on the open contract being determined at the end of the previous period and being no changes in the open obligation requirements, the Company is of the belief there will be no adjustments in the value of the revenue recognized from these contracts.

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Table of Contents**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at October 31, 2018 and 2017:

| | 2018 | 2017 |
|---------------------------------|-------------|-------------|
| Property and equipment | \$ 87,773 | \$ 83,682 |
| Less: accumulation depreciation | (81,713) | 82,721 |
| Net property and equipment | 6,060 | 961 |

Depreciation expense totaled \$496 and \$701 for the years ended October 31, 2018 and 2017 respectively.

NOTE 4 – INCOME TAXES

The Company follows Accounting Standards Codification 740, Accounting for Income Taxes. During 2009, there was a change in control of the Company.

Under section 382 of the Internal Revenue Code such a change in control negates much of the tax loss carry forward and deferred income tax. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carry forwards. For federal income tax purposes, the Company uses the accrual basis of accounting, the same that is used for financial reporting purposes.

The Company's deferred tax assets for the U.S. parent company and its U.S. subsidiary consisted of the following as of October 31, 2018, and 2017:

| | 2018 | 2017 |
|-----------------------------------|--------------|--------------|
| Income/(Loss) Before Income Taxes | \$ (174,958) | \$ (268,164) |
| Income Tax Recovery/Expense | (36,741) | (56,314) |
| Use of PY NOL | | |
| Valuation Allowance | 36,741 | 56,314 |
| | \$ - | \$ - |

| | | |
|-------------------------|--------------|--------------|
| Net Operating Losses | \$ 1,900,323 | \$ 1,725,365 |
| Tax Rate | 21% | 21% |
| Deferred Tax Assets | 399,068 | 362,327 |
| Valuation Allowance | (399,068) | (362,327) |
| Net Deferred Tax Assets | \$ - | \$ - |

The Parent Company had net losses of \$174,958, and \$268,164 for the years ended October 31, 2018 and 2017, respectively. As of October 31, 2018, the Company had a net operating loss carry forward of \$1,900,323 which can be used to offset future taxable income. The carry forwards will begin to expire in 2037, or twenty years after the loss is first incurred, if not used prior to that date.

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A reconciliation of income taxes at the federal statutory rate to amounts provided for the years ended October 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|-----------------------------|-------------|-------------|
| U.S. federal statutory rate | 21% | 21% |
| Net operating loss | (21)% | (21)% |
| Effective tax rate | -% | -% |

The parent Company due to its loss has not filed US Corporate tax returns and is subject to examination back to October 31, 2012.

The Company's deferred tax assets for the Canadian subsidiary companies consisted of the following as of October 31, 2018, and 2017:

| | 2018 | 2017 |
|-----------------------------------|-------------|-------------|
| Income/(Loss) Before Income Taxes | \$ 305,977 | \$ 137,551 |
| Income Tax Recovery/Expense | 81,084 | (27,510) |
| Valuation Allowance | (81,084) | 27,510 |
| | - | - |
| Net Operating Losses | \$ 356,394 | \$ 662,372 |
| Tax Rate | 26.5% | 20% |
| Deferred Tax Assets | 94,444 | 132,474 |
| Valuation Allowance | (94,444) | (132,474) |
| Net Deferred Tax Assets | - | - |

The Canadian Company had a net income of \$305,977 and net income of \$137,551 for the years ended October 31, 2018 and 2017, respectively. As of October 31, 2018, the Company had a net operating loss carry forward of \$356,394 which can be used to offset future taxable income. The carry forwards will begin to expire in 2034, or twenty years after the loss is first incurred, if not used prior to that date.

A reconciliation of income taxes at the federal statutory rate to amounts provided for the years ended October 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---------------------------------|-------------|-------------|
| Canadian federal statutory rate | 26.5% | 20% |
| Net operating loss | (26.5)% | (20)% |
| Effective tax rate | -% | -% |

The Canadian Company has filed corporate tax returns through October 31, 2018 and is subject to examination back to 2013.

During the years ended October 31, 2018 and 2017 Cogent received tax refunds of \$32,275 and \$33,317, respectively. The refunds are received under a scientific research and development program.

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The Company's deferred tax assets for the Japanese subsidiary company consisted of the following as of October 31, 2018:

| | 2018 | 2017 |
|-----------------------------------|-------------|-------------|
| Income/(Loss) Before Income Taxes | \$ (48,479) | \$ 3,428 |
| Income Tax Recovery/Expense | 14,961 | 1,303 |
| Valuation Allowance | (14,961) | (1,303) |
| | - | -- |
| Net Operating Losses | \$ 142,206 | 93,726 |
| Tax Rate | 30.86% | 38.01% |
| Deferred Tax Assets | 43,885 | 35,625 |
| Valuation Allowance | (43,885) | (35,625) |
| Net Deferred Tax Assets | - | |

The Japanese Company had net loss of \$48,479 and a net income of \$3,428 for the years ended October 31, 2018 and 2017. As of October 31, 2018 the Company had a net operating loss carry forward of \$142,206, which can be used to offset future taxable income. As the Company was acquired on November 1, 2014, the loss carry forward may be subject to a change in control calculation.

A reconciliation of income taxes at the federal statutory rate to amounts provided for the years ended October 31, 2018 is as follows:

| | 2018 | 2017 |
|---------------------------------|-------------|-------------|
| Japanese federal statutory rate | 30.86% | 38.01% |
| Net operating loss | (30.86)% | (38.01)% |
| Effective tax rate | -% | -% |

Skkynet Japan has filed corporate tax returns through July 31, 2018 and is subject to examination back to 2008 under law.

NOTE 5 – EQUITY

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.

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.

Table of Contents**NOTE 6 – CONTRIBUTION TO CAPITAL**

On April 7, 2017 one of the officers converted \$36,604 (CDN \$50,000) of commission to 74,500 options.

On October 31, 2017, the Officers and directors of the Company elected to forgo their accrued compensation for the fiscal year ended 2017 in exchange for shares of common stock and options. The \$253,380 of accrued compensation was exchanged for 510,400 options granted with a value of \$204,180 and 123,000 shares of common stock was exchanged for \$49,200 of accrued compensation.

| | Accrued compensation | Options Issued for accrued compensation | Common stock issued for accrued compensation |
|---------------------|---------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|
| Andrew Thomas | \$ 73,259 | 183,100 | - |
| Paul Benford | 43,644 | 109,100 | - |
| Paul Thomas | 27,277 | 68,200 | - |
| Lowell Holden | 19,200 | - | 48,000 |
| All three directors | 90,000 | 150,000 | 75,000 |
| Total | \$ 253,380 | 510,400 | 123,000 |

During the year ended October 31, 2018, the Officers and directors of the Company elected to forgo their accrued compensation for the year ended October 31, 2018 in exchange for shares of common stock and options. The \$198,025 of accrued compensation was exchanged for 333,400 options granted with a fair value of \$193,090 and 75,822 shares of common stock with a fair value of \$44,128.

| | Accrued Compensation | Options Issued for Accrued Compensation | Common stock issued for accrued Compensation |
|---------------------|---------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|
| Andrew Thomas | \$ 50,102 | 104,600 | - |
| Paul Benford | \$ 33,007 | 68,100 | - |
| Paul Thomas | \$ 33,007 | 68,100 | - |
| Lowell Holden | \$ 14,409 | - | 29,589 |
| All three directors | \$ 67,500 | 92,600 | 46,233 |
| Total | \$ 198,025 | 333,400 | 75,822 |

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NOTE 7 – OPTIONS

The Company under its 2012 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 were granted. All options are exercisable at a purchase price based on the last trading price of the Company's common stock.

On April 7, 2017, the Company issued 74,500 options with an exercise price of \$0.50 to one employee for the reduction of \$36,604 of accrued commissions (CDN \$94,404 to CDN \$44,404). The options have a fair value using the Black Sholes valuation of \$36,604, with computed volatility of 130.12% and a discount rate of 2.25. The options were vested upon issuance.

On October 31, 2017, the Company issued 510,400 options to three officers and two directors with exercise price of \$0.001 for accrued compensation contributed to capital. The options have a fair value using the Black Sholes valuation of \$204,180 with computed volatility of 174.03% and a discount rate of 2.25. The options were vested upon issuance.

On April 7, 2017, the Company issued 418,200 options with an exercise price of \$0.50 per share to 13 officers, employees and consultants of the Company. The options vest in equal annual installments over a five-year period with the first 20% vested when the options were granted. Computed volatility of 195.43% and a discount rate of 2.25 were used in calculating the fair value of the options of \$207,887.

On October 31, 2017, the Company issued 7,500 options to three directors with exercise price of \$0.40 per share. 20% of the option will vest immediately, the additional 20% to vest on October 31 of each successive year. Computed volatility of 159.26% and a discount rate of 2.25% were used in calculating the fair value of the option of \$2,968.

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.

On March 27, 2018, the company issued 215,000 options to various employees and consultants with exercise price of \$0.38. The options have a fair value using the Black Scholes 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 Scholes 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.

On July 31, 2018, the company issued 84,900 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 Scholes valuation of \$52,976 with computed volatility of 197% and a discount rate of 3.05%. The liability for which the options were issued was \$52,976 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 above is \$2,780,512. As of October 31, 2018 the Company expensed \$354,750 for the year ended October 31, 2018 and \$504,585 was expensed for the same period in 2017. The unrecognized future balance to be expensed over the term of the options is \$856,863.

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The number of options becoming exercisable during the year ended October 31, 2018 was 6,317,780 with a total number exercisable as of October 31, 2017 of 5,518,640

The following sets forth the options granted and outstanding as of October 31, 2018:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life | Granted Options Exercisable | Intrinsic Value |
|------------------------------|-----------|------------------------------------------|------------------------------------------------------|-----------------------------------|--------------------|
| Outstanding at Year Ended | | | | | |
| October 31, 2016 | 6,263,200 | .54 | 5.18 | 4,308,600 | 2,857,703 |
| Granted | 1,010,600 | .22 | 9.8 | - | - |
| Exercised | - | - | - | - | - |
| Forfeited by termination | (50,000) | (1.14) | - | - | - |
| Outstanding at Year Ended | | | | | |
| October 31, 2017 | 7,223,800 | .40 | 4.77 | 5,518,640 | 1,401,820 |
| Granted | 548,400 | .15 | 10.00 | - | - |
| Exercised | - | - | - | - | - |
| Forfeited by termination | - | - | - | - | - |
| Outstanding at Year Ended | | | | | |
| October 31, 2018 | 7,772,200 | .34 | 5.27 | 6,317,750 | \$ 2,241,496 |

NOTE 8 – RELATED PARTY TRANSACTIONS

Sakura Software, a corporation owned by our CEO and Chairman of the Board of Directors, Andrew S. Thomas, and Benford Consultancy, a corporation owned by our COO and a member of our Board of Directors, Paul Benford, own, respectively, 72.34% and 27.66% of the issued and outstanding shares of Real Innovations International LLC, (“Real Innovations”) a corporation organized under the laws of Nevis, West Indies. In March 2012, Cogent, our operating subsidiary, assigned all of its intellectual property including the pending patent applications for its real-time data transmission and display technology (the “IP”) to Real Innovations under an assignment of intellectual property agreement (the “Assignment Agreement”). 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.

Real Innovations, in turn, entered into a master intellectual property license agreement (the “License Agreement”) with Cogent for all of the same IP. Under the License Agreement Real Innovations granted a royalty-free license in perpetuity to Cogent for the use and exploitation of the IP in return for which Cogent agreed to: (i) pay all operating expenses of Real Innovations incurred in connection with the continued prosecution of pending patent applications and others that may be prepared; (ii) prosecute all claims for infringement of the IP; (iii) defend and indemnify Real Innovations from and against all claims of infringement of the IP asserted by third parties against Real Innovations, Cogent or our Company; (iv) purchase liability insurance in favor of Real Innovations for this purpose. Under the termination provision of the licenses agreement, there is no unilateral right of termination. Termination may occur by mutual consent of the parties, the Company ceasing doing business, by breach by the Company or by the Company failing to maintain the license and the support to prosecute and protect the license under applicable laws.

Under the License Agreement, Messrs. Andrew S. Thomas and Paul Benford will benefit indirectly from their indirect ownership of all of the shares of Real Innovations to the extent of any such payments or other undertakings by Cogent on behalf of Real Innovations, but the exact amount of these benefits cannot be determined at this time.

During the years ended October 31, 2018 and 2017 the Company recognized but did not pay dividends of \$11,620 and \$11,620, respectively.

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.

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

| As of October 31, | 2018 | 2017 |
|-------------------------------------|-----------|-----------|
| Accrued liabilities related parties | 47,438 | 27,644 |
| Accrued commissions | 36,772 | 19,987 |
| Total accrued liabilities | \$ 84,210 | \$ 47,631 |

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During the year ended October 31, 2018, the Officers and directors of the Company elected to forgo their accrued compensation in exchange for shares of common stock and options. The \$198,025 of accrued compensation was exchanged for 333,400 options granted with a fair value of \$193,090 and 75,822 shares of common stock with a fair value of \$44,128.

| | Accrued compensation | Options Issued for accrued compensation | Common stock issued for accrued compensation |
|---------------------|-------------------------|-----------------------------------------------|-------------------------------------------------------|
| Andrew Thomas | \$ 50,102 | 104,600 | - |
| Paul Benford | \$ 33,007 | 68,100 | - |
| Paul Thomas | \$ 33,007 | 68,100 | - |
| Lowell Holden | \$ 14,409 | - | 29,589 |
| All three directors | \$ 67,500 | 92,600 | 46,233 |
| Total | \$ 198,025 | 333,400 | 75,822 |

NOTE 9 – MAJOR CUSTOMERS

The Company sells to their end-user customers both directly and through resellers. Five resellers accounted for 49% of sales in 2018 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.

NOTE 10 – REVENUE BY PRODUCT LINES AND GEOGRAPHIC AREAS

The Company revenue by product line during the year ended October 31, 2018 and 2017 was as follows:

| Category | 2018 | 2017 |
|---------------|-----------|-----------|
| Product sales | 1,098,609 | 994,724 |
| Support | 365,350 | 290,816 |
| Other | 2,453 | 50,777 |
| Total | 1,466,412 | 1,336,316 |

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The Company sells its products on a worldwide basis. During the year ended October 31, 2018 and the Company's revenue resulted in the following amounts geographically:

| Area | Percentage | 2018 | 2017 |
|--------------------|-------------------|------------------|------------------|
| North America | 31% | 448,520 | 366,803 |
| Europe | 33% | 480,971 | 474,245 |
| Asia | 20% | 283,384 | 308,119 |
| Middle East-Africa | 11% | 153,305 | 96,320 |
| South America | 5% | 78,852 | 35,992 |
| Other | 0% | 21,380 | 54,837 |
| Total | 100% | 1,466,412 | 1,336,316 |

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The Company receives part of its revenue from the sale of software support. The revenue received is for one year of support from the date of the support sale. The Company defers the revenue for the future periods in which it is obligated to perform the support service. As of October 31, 2018, and 2017 the Company had deferred revenue of \$88,386 and \$103,204, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company leases office space located at 2233 Argentia Road Suite 306 Mississauga, Ontario Canada L5N 2X7. The offices contain approximately 2,810 square feet of office space and are leased from July 1, 2014 through July 31, 2017. Under the terms of the lease, the gross monthly rental cost including common area charges is \$6,700. The lease terminated on July 31, 2017.

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 | | |
|--------------------|-----------|----------------|
| 2019 | \$ | 49,164 |
| 2020 | \$ | 49,164 |
| 2021 | \$ | 49,164 |
| 2022 | \$ | 36,873 |
| Total | \$ | 184,365 |