

Skkynet Cloud Systems, Inc.
Form 10-Q
September 14, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number **000-54747**

**SKKYNET CLOUD SYSTEMS
INC.**

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or
organization)

45-3757848
(IRS Employer Identification No.)

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

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

(Address of principal executive offices)

(888) 628-2028

(Issuer's telephone number)

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

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

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

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

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

As of September 14, 2015 there were 50,795,500 shares of Common Stock of the issuer outstanding.

| | Page |
|---|-------------|
| PART I: FINANCIAL INFORMATION | |
| Item 1. Financial Statements | 4 |
| Consolidated Balance Sheets as of July 31, 2015 (Unaudited) and October 31, 2014 | 4 |
| Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine months Ended July 31, 2015 and 2014 (Unaudited) | 5 |
| Consolidated Statements of Cash Flows for the Nine Months Ended July 31, 2015 and 2014 (Unaudited) | 6 |
| Notes to Consolidated Financial Statements (Unaudited) | 7 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 12 |
| Item 4. Controls and Procedures | 13 |
| PART II: OTHER INFORMATION | |
| Item 1. Legal Proceedings | 14 |
| Item 1A. Risk Factors | 14 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 14 |
| Item 3. Defaults upon Senior Securities | 14 |
| Item 4. Mine Safety Information | 14 |
| Item 5. Other Information | 14 |
| Item 6. Exhibits | 15 |
| Signatures | 16 |

FORWARD LOOKING STATEMENTS

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

PART I**ITEM 1: FINANCIAL STATEMENTS****SKKYNET CLOUD SYSTEMS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| | July 31, 2015 | October 31, 2014 |
|--|--------------------------|-----------------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 525,072 | \$ 977,688 |
| Accounts receivable | 139,867 | 86,564 |
| Inventory | 12,593 | -- |
| Total current assets | 677,532 | 1,064,252 |
| Property and equipment, net of accumulated depreciation of \$71,765 and \$70,484 respectively | 2,175 | 3,456 |
| Intangibles -net | 46,714 | 2,248 |
| Other assets | 32,420 | -- |
| Total Assets | \$ 758,841 | \$ 1,069,956 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)</u> | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 58,480 | \$ 58,104 |
| Accrued expense – related parties | -- | 6,911 |
| Accrued liabilities – related party | 420,224 | 241,926 |
| Notes payable – related parties | -- | 153,580 |
| Deferred revenue | 91,897 | 44,845 |
| Total current liabilities | 570,601 | 505,366 |
| Total liabilities | 570,601 | 505,366 |
| 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 share authorized, 193,661 issued and zero outstanding, respectively | 193,661 | -- |
| Common stock; \$0.001 par value, 70,000,000 shares authorized, 50,795,500 and 50,642,500 shares issued and outstanding, respectively | 50,796 | 50,643 |
| Additional paid-in capital | 2,732,132 | 2,206,424 |
| Accumulative other comprehensive income (loss) | (93,509) | 10,846 |
| Accumulated deficit | (2,694,845) | (1,703,328) |

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

| | | | | |
|--|--|------------|----|-----------|
| Total shareholders' equity | | 188,240 | | 564,590 |
| Total Liabilities and Stockholders' Equity | | \$ 758,841 | \$ | 1,069,956 |

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

SKKYNET CLOUD SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|-----------------------------|--------------|----------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 308,028 | \$ 209,578 | \$ 849,778 | \$ 774,925 |
| Direct material costs | 528 | 1,116 | 26,617 | 2,571 |
| Gross profit | 307,500 | 208,462 | 823,161 | 742,354 |
| Operating Expenses: | | | | |
| General & administrative | 523,634 | 458,884 | 1,869,620 | 1,264,706 |
| Depreciation and amortization | 5,609 | 428 | 16,835 | 1,238 |
| Loss from operations | (221,743) | (250,850) | (1,063,294) | (523,590) |
| Other Income (Expenses): | | | | |
| Other income | (8) | -- | 160 | -- |
| Gain on debt forgiveness | -- | -- | -- | 11,982 |
| Interest expense | (2,113) | (2,418) | (6,409) | (7,686) |
| Tax refund | -- | -- | 78,026 | -- |
| Total other income (expenses) | (2,121) | (2,418) | 71,777 | 4,296 |
| Net loss | \$ (223,864) | \$ (253,268) | \$ (991,517) | \$ (519,294) |
| Foreign currency translation adjustment | (59,543) | (6,908) | (104,355) | (13,671) |
| Comprehensive (loss) | \$ (283,407) | \$ (260,176) | \$ (1,095,872) | \$ (532,965) |
| Net loss per common share attributable to common stockholders (basic and diluted) | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| Weighted average common shares outstanding (basic and diluted): | 50,795,500 | 49,844,000 | 50,784,831 | 49,703,890 |

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

SKKYNET CLOUD SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Nine Months Ended July 31, | |
|---|-----------------------------------|------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (991,517) | \$ (519,294) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 16,835 | 1,238 |
| Option based compensation | 314,111 | 235,822 |
| Stock based compensation | 37,250 | -- |
| Gain on debt forgiveness | -- | (11,982) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (16,214) | 7,216 |
| Accounts payable and accrued expenses | (35,588) | (11,843) |
| Inventory | (5,417) | -- |
| Accrued liabilities – related parties | 178,298 | (1,002) |
| Taxes payable | -- | (8,227) |
| Prepaid | (21,509) | -- |
| Deferred Income | 43,239 | 3,918 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (480,512) | (304,514) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for purchase of fixed assets | -- | (2,020) |
| Cash received, net of cash paid for Nic | (1,118) | -- |
| NET CASH USED IN INVESTING ACTIVITIES | (1,118) | (2,020) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the sale of common stock | 100,000 | 369,750 |
| Payments on notes payable – related parties | -- | (39,342) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 100,000 | 330,408 |
| Effect of exchange rate changes on cash | (70,986) | 15,223 |
| Net increase (decrease) in cash | (452,616) | 39,457 |
| Cash, beginning of period | 977,688 | 365,415 |
| Cash, end of period | \$ 525,072 | \$ 404,872 |
| SUPPLEMENTAL CASH FLOWS INFORMATION | | |
| Interest paid | \$ -- | \$ 21,007 |
| Income taxes paid | \$ -- | \$ -- |

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

Non-Monetary Transactions

| | | | | |
|--|----|---------|----|----|
| Assets acquired in acquisition through stock issuance | \$ | 74,500 | \$ | -- |
| Preferred series B shares issued for debt- related parties | \$ | 193,661 | \$ | -- |

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

SKKYNET CLOUD SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Skkynet Cloud Systems, Inc. (“Skkynet” or “the Company”) is a Nevada corporation formed on August 31, 2011 and headquartered in Toronto, Canada. Skkynet operates its business through its wholly-owned subsidiary Cogent Real-Time Systems, Inc. (“Cogent”). 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.

On November 1, 2014 the Company acquired Nic Corporation as a wholly owned subsidiary. On February 1, 2015 the Company formed a wholly owned US subsidiary Skkynet, Inc. and wholly owned Canadian subsidiary Skkynet Corp. (See Note 7 Acquisitions)

On July 30, 2015 the Company designated 500,000 shares of the preferred stock as Series B Convertible preferred. The Series B shares have a par value of \$0.001 and issue value of \$1.00 per share. The series B is convertible by the holder into common stock at \$1.32 per share. The Company may, any time at its option, redeem the Series B shares at their stated value. The Series B preferred shares hold a 6% per annum accumulative dividend.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (the “SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s October 31, 2014 Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year end October 31, 2014 as reported on Form 10-K, have been omitted.

Inventory

Inventory consists of hardware used to embed software and is stated at the lower of cost or market.

NOTE 2 – RELATED PARTY TRANSACTIONS

On July 31, 2012, Andrew Thomas, Shizuka Thomas and Paul Benford converted the salary they had accrued through our subsidiary through July 31, 2012 to notes payable due from that subsidiary. The notes matured on April 29, 2015 and bear an interest rate of 6% per annum on the outstanding balance. Interest payments are due quarterly commencing October 30, 2012.

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

On July 30, 2015 the notes and accrued interest were converted to 193,661 Series B convertible preferred shares for the outstanding principal and interest as of July 30, 2015.

| | Note Balance | Interest | Total | Shares issued |
|----------------|-------------------------|-----------------|--------------|--------------------------|
| Andrew Thomas | \$ 54,874 | \$ 5,403 | \$ 60,241 | 60,241 |
| Paul Benford | \$ 85,842 | \$ 8,761 | \$ 94,603 | 94,603 |
| Shizuka Thomas | \$ 39,197 | \$ 3,620 | \$ 38,817 | 38,817 |
| Total | \$ 175,887 | \$ 17,774 | \$ 193,661 | 193,661 |

On January 1, 2012 and April 15, 2012, the Company and its subsidiary entered into employment agreements with four of its officers and directors. As a result of these agreements the Company has accrued compensation for each of the individuals. In addition the Company is accruing director compensation at the rate of \$2,500 per director per month. As of July 31, 2015 the accrued liability for compensation was \$420,244

As of July 31, 2015 and October 31, 2014, the Company had the following outstanding accrued liabilities due to related parties:

| As of | July 31, 2015 | October 31, 2014 |
|---|--------------------------|-----------------------------|
| Accrued salaries | \$ 297,424 | \$ 201,026 |
| Director fees | \$ 75,000 | \$ 7,500 |
| Consulting fees | \$ 47,800 | \$ 33,400 |
| Accrued liabilities | \$ 420,224 | \$ 241,926 |
| Accrued expense | \$ -- | \$ 6,911 |
| Total accrued liabilities and accrued expense | \$ 420,244 | \$ 248,837 |

On December 4, 2014, the Company issued 78,000 shares of common stock a \$1.282 per share to a related party for \$100,000 in cash.

NOTE 3 – EQUITY

On November 1, 2014, the Company issued 50,000 shares of common stock to three individuals with a value of \$74,500 for the acquisition of Nic Corporation. (See Note 7 Acquisition)

On November 10, 2014, the Company issued 25,000 shares of common stock to one entity with a value of \$37,250 for services.

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

On December 4, 2014, the Company issued 78,000 shares of common stock a \$1.282 per share to a related party for \$ 100,000 in cash.

On July 30, 2015, the Company designated 500,000 shares of the preferred stock as Series B Convertible preferred. The Series B shares have a par value of \$0.001 and issue value of \$1.00 per share. The series B is convertible by the holder into common stock at \$1.32 per share. The Company may, any time at its option, redeem the Series B shares at their stated value. The Series B preferred shares hold a 6% per annum accumulative dividend.

On July 30, 2015, the Company issued 193,661 shares of Series B convertible preferred stock to three related parties in exchange for the outstanding notes payable and accrued interest of \$193,661.

NOTE 4 – OPTIONS

The Company, under its 2012 Stock Option Plan, issues option 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 of the options are exercisable at a purchase price based on the last trading price of the Company's common stock.

On January 19, 2015, the Company issued 106,000 options under the 2012 Stock Option Plan to 4 employees with an exercise price of \$1.32 per share.

On February 10, 2015, the Company issued 10,000 options to one consultant with exercise price of \$1.30. 20% of the option will vest immediately, the additional 20% to vest on February 10 of each successive year.

The Company has elected to expense the options over the life of the option as stock based compensation. The expense is calculated with a Black Scholes model to reach the fair value over the length of each option. The total value calculated for option expense is \$2,459,889. During the period ended July 31, 2015 the Company expensed \$314,111 for options. The unrecognized future balance to be expensed over the term of the options is \$1,802,792

The following sets forth the options granted and outstanding as of July 31, 2015:

| | Options | Weighted Average Exercise price | Weighted Average Remaining Contract Life | Number of Options Exercisable | Intrinsic value |
|---------------------------------|----------------|--|---|--|----------------------------|
| Outstanding at October 31, 2014 | 5,270,000 | 0.51 | 8.44 | 2,218,000 | 5,164,900 |
| Granted | 116,000 | 1.32 | 9.51 | 1,113,200 | -- |
| Exercised | -- | -- | -- | -- | -- |
| Outstanding at July 31, 2015 | 5,386,000 | 0.52 | 8.46 | 3,331,200 | 4,284,900 |

NOTE 5 – 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 per month. The lease terminates on July, 31, 2017. The yearly rental obligations under the lease agreement are as follows:

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

| | |
|------------|------------|
| 2015 | \$ 7,265 |
| 2016 | \$ 70,567 |
| 2017 | \$ 61,538 |
| 2018 | \$ 0 |
| 2029 | \$ 0 |
| thereafter | \$ 0 |
| Total | \$ 139,370 |

NOTE 6 – DEFERRED REVENUE

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 July 31, 2015 the Company had deferred revenue of \$91,897.

NOTE 7 – ACQUISITION

On November 1, 2014, the Company acquired all the outstanding shares of Nic Corporation, based in Japan, for \$110,000 in cash plus 50,000 share 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.

The Company estimates the useful life to the customer list to be three years and thus it is being amortized over a three year period. The amortization for the nine month period that was recorded is \$15,571. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The company has not finalized its purchase price allocation and this is preliminary.

| | |
|-----------------------------|-------------------|
| Cash and cash equivalents | \$ 108,882 |
| Accounts receivable | 37,089 |
| Inventory | 7,175 |
| Prepaid | 4,726 |
| Intangible asset | 62,285 |
| Other assets | 6,185 |
| Total Assets | 226,342 |
| Accounts payable | 31,874 |
| Deposits | 3,813 |
| Taxes payable | 6,155 |
| Total Liabilities | 41,842 |
| Total Purchase Price | \$ 184,500 |

The following unaudited consolidated pro forma information gives effect to the Nic Corporation acquisition as if this transaction had occurred at the beginning of the period presented. The following unaudited pro forma information is presented for illustration purposes only and is not necessarily indicative of the results that would have been attained had the acquisition of this business been completed at the beginning of each period presented, nor are they indicative of results that may occur in any future periods.

As of July 31, 2015(Unaudited)

Edgar Filing: Skkynet Cloud Systems, Inc. - Form 10-Q

| | Three Months Period | Nine Months period |
|-----------------------|------------------------------------|-------------------------------|
| Revenue | \$ 231,529 | \$ 1,140,459 |
| Operating expense | \$ 566,193 | \$ 1,560,476 |
| Other income(expense) | \$ 25,712 | \$ (23,829) |
| Net loss | \$ (365,213) | \$ (443,847) |

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

The Company operates its traditional business through its wholly-owned subsidiary Cogent Real-Time Systems, Inc. The Company has taken the existing business lines of Cogent and integrated these with cloud based systems. The Company operates the cloud based business through its wholly-owned subsidiaries Skkynet, Inc. (US) and Skkynet Corp. (Canada). The Company also operates embedded hardware-based business through its wholly-owned subsidiary Nic Corporation (Japan).

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

RESULTS OF OPERATIONS

For the three and nine month periods ending July 31, 2015, revenues were \$308,028 and \$849,778 compared to \$209,578 and \$744,925 for the same period in 2014. Revenue increased for the three and nine month period ending July 31, 2015 over the three and nine month period ended July 31, 2014, plus higher deferred revenue of \$91,897 in 2015 compared to \$44,845 in 2014, confirmed higher sales to customers during 2015. The Company has concentrated on launching its cloud services which, in the long term, should result in increased sales.

General and administrative expense increased to \$523,634 and \$1,869,620 for the three and nine months ended July 31, 2015 from \$458,884 and \$1,264,706 for the same periods in 2014. The increase in general and administrative expenses for the three and nine months ended July 31, 2015 included options expensed of \$314,111 compared to \$235,822 in 2014, increased consulting, the opening of a new office, plus added marketing expenses to launch the cloud service and propel business growth.

For the three and nine month periods ending July 31, 2015 the Company posted an operating loss of \$221,743 and \$1,063,294 compared to an operation loss of \$250,850 and \$523,590 for the same periods in 2014. The increase in operating loss is attributable to increased expenses in consulting, salaries and office opening expenses, plus option based compensation of \$314,111, stock compensation of \$37,250, and depreciation of \$16,835.

Other income and expenses for the three and nine month periods ending July 31, 2015 was an expense of \$2,121 and income of \$71,777 compared to other expense of \$2,418 and income of \$4,296 for the same periods in 2014. Interest expense, plus a tax refund of \$78,026 comprised the other income in 2015.

A net loss of \$223,864 and \$991,517 was recorded for the three and nine months period ending July 31, 2015 compared to a net loss of \$253,268 and \$519,294 for the same periods in 2014. The loss can be attributed to added employee costs and increased marketing activity in 2015 compared to 2014.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2015, Skkynet had current assets of \$677,532 and current liabilities of \$570,601, resulting in working capital of \$106,931. Accumulated deficit, as of July 31, 2015, was \$2,754,642 with total shareholders' equity of \$188,240.

Net cash used in operations for the nine months ending July 31, 2015 was \$480,512 compared to net cash used of \$304,154 for the same period in 2014. Net cash used in operations increased primarily due to an increase in the net loss of \$472,223 and increase in accounts payable of \$23,745. These were offset by stock based compensation of \$37,250; stock option based compensation of \$314,111, accrued liabilities to related parties of \$178,298, and deferred revenue of \$73,234.

Cash used in investing activities in the nine months period ended July 31, 2015 and 2014 was \$1,118 and \$2,020. The investing activity in 2015 included the acquisition of Nic Corporation for \$110,000, in cash, offset by cash received of \$108,882, plus stock of \$74,500.

Net cash provided in financing activities during the nine months ended July 31, 2015 was \$100,000 compared to net cash provided of \$330,408 for the same period in 2014. The difference was due to the sale of common stock of \$369,750 offset by the reduction of notes payable to related parties of \$39,342 in 2014 compared to the sale of common stock for cash of \$100,000 in the same period in 2015.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4: CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this report, our management, under the supervision and with participation of our Principal Executive Officer and Principal Financial Officer (the "Certifying Officers") conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2015. Based on that evaluation, our management concluded that there is a material weakness in our disclosure controls and procedures over financial reporting. The material weakness results from a lack of written procedures which effectively documents the proper procedures and descriptions of the duties of all persons involved in the disclosure controls of the Company. The Company hopes to implement plans to document the procedures and internal controls of the Company. A material weakness is a deficiency, or a combination of control deficiencies, in disclosure control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. This does not include an evaluation by the Company's registered public accounting firm regarding the Company's internal control over financial reporting.

Changes in Internal Control over Financial Reporting

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

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

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

There have been no material changes to Skkynet's risk factors as previously disclosed in our most recent 10-K filing for the year ending October 31, 2014.

ITEM 2: SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 1, 2014, the Company issued 50,000 shares of common stock to three individuals with a value of \$74,500 for the acquisition of Nic Corporation.

On November 10, 2014, the Company issued 25,000 shares of common stock with a value of \$37,250 for services.

On December 4, 2014, the Company issued 78,000 shares of common stock a \$1.282 per share to a related party for \$ 100,000 in cash.

On July 30, 2015, the Company issued 193,661 shares of Series B convertible preferred stock to three related parties in exchange for the outstanding notes payable and accrued interest of \$193,661.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: MINE SAFETY INFORMATION

None

ITEM 5: OTHER INFORMATION

None

14

ITEM 6: EXHIBITS

EXHIBIT 31.1 Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.2 Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

EXHIBIT 32.1 Certification of Principal Executive Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 32.2 Certification of Principal Financial Officer of the Registrant pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

**SKKYNET CLOUD SYSTEMS
INC.**

Date: September 14, 2015

By: */s/ Andrew Thomas*
Andrew Thomas
Chief Executive Officer
(Duly Authorized, Principal
Executive Officer)

By: */s/ Lowell Holden*
Lowell Holden
Chief Financial Officer
(Duly Authorized Principal
Financial Officer)