DIGERATI TECHNOLOGIES, INC.

FORM 8-K/A
(Amended Current report filing)

Filed 01/21/22 for the Period Ending 12/31/21

Address	825 W. BITTERS RD., SUITE 104 SAN ANTONIO, TX, 78216
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Industry	Integrated Telecommunications Services
Sector	Telecommunication Services
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

Current Report Pursuant
to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 31, 2021

Digerati Technologies, Inc.

(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation)

001-15687	74-2849995
(Commission File Number)	(IRS Employer Identification No.)
825 W. Bitters, Suite 104, San Antonio, TX	78216
(Address of Principal Executive Offices)	(Zip Code)

(210) 614-7240

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging Growth Company ☐

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. ☐

Explanatory Note

On January 6, 2022, Digerati Technologies, Inc. (the "Company") filed a Current Report on Form 8-K (the "Initial Form 8-K") reporting under Item 1.01 the completion of the acquisition of Skynet Telecom, LLC, a Texas corporation (the "Seller") by our indirect, wholly owned subsidiary, Shift8 Networks, Inc., a Texas corporation ("Shift8"), via an Asset Purchase Agreement (the "Purchase Agreement"). This Amendment No. 1 to the Initial Form 8-K amends and supplements the Initial Form 8-K to include financial statements and pro forma financial information permitted to be filed by amendment.

Item 9.01 Financial Statements and Exhibits

(a) Financial statements of businesses acquired

The audited balance sheet of the Seller as of July 31, 2021, the related audited statement of operations, changes in shareholders' equity, and cash flows of the Seller for the year ended July 31, 2021, the notes related thereto and the Report of Independent Registered Public Accounting Firm, are attached hereto as Exhibit 99.1, and incorporated herein by reference.

The unaudited balance sheet of the Seller as of October 31, 2021, the related unaudited statement of operations, changes in shareholders' equity, and cash flows of the Seller for the Three Months ended October 31, 2021, and 2020, the notes related thereto, are attached hereto as Exhibit 99.2, and incorporated herein by reference.

(b) Pro forma financial information

The unaudited pro forma combined consolidated balance sheet of the Company as of October 31, 2021, the unaudited pro forma consolidated statement of operations of the Company for the Three Months ended October 31, 2021, and for the Year Ended July 31, 2021, and the notes to the unaudited pro forma consolidated financial statements, all giving effect to the acquisition by the Company of Skynet's assets, are attached hereto as Exhibit 99.3 and incorporated herein by reference.

(c) Exhibits.

Exhibit No.	Description
99.1	Audited financial statements of Skynet Telecom, LLC, for the year ended July 31, 2021.
99.2	Unaudited Financial Statements of Skynet Telecom, LLC, for the Three Months Ended October 31, 2021, and 2020.
99.3	Unaudited Pro Forma Consolidated Balance sheet of the Company as of October 31, 2021, Unaudited Pro Forma Consolidated Statements of Operations of the Company for the Three Months Ended October 31, 2021, and the Year Ended July 31, 2021, and Notes to the Unaudited Pro Forma Consolidated Financial Statements, all giving effect to the Acquisition by the Company of Skynet's assets.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to 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.

Dated: January 21, 2022

Digerati Technologies, Inc.

By: */s/ Antonio Estrada Jr.*

Antonio Estrada Jr.,
Chief Financial Officer

Exhibit 99.1

Financial Statements and Supplementary Data.

SKYNET TELECOM, LLC

Audited Financial Statements

July 31, 2021

ADKF, P.C.
Certified Public Accountants

SKYNET TELECOM, LLC
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July 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Members
Skynet Telecom, LLC
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Skynet Telecom, LLC (the Company), which comprise the balance sheets as of July 31, 2021, and the statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U. S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skynet Telecom, LLC as of July 31, 2021 and the results of their operations and their cash flows for the year then ended in accordance with U. S. generally accepted accounting principles.

/s/ ADKF, P.C.

San Antonio, Texas
January 18, 2022

SKYNET TELECOM, LLC
BALANCE SHEET
(In thousands)

		July 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$	742
Accounts receivable:		
Trade		91
Other		56
Investments		261
Inventory		13
Total current assets		1,163
Property and Equipment, net		17
Other Assets		
Operating lease right-of-use asset		45
Deposits and other assets		5
Total noncurrent assets		50
Total Assets	$	1,230
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$	70
Accrued expenses		240
Operating lease liability, current		46
Total current liabilities		356
Long-Term Liabilities:		
Small business adminstration loans		-
Lease liability		7
Total long-term liabilities		7
Members' Equity		867
Total Liabilities and Members' Equity	$	1,230

See accompanying notes to financial statements

SKYNET TELECOM, LLC
STATEMENT OF OPERATIONS
(In thousands)

	For the Year Ended July 31, 2021
Operating revenue	
Cloud software and service revenue	$ 3,562
Total operating revenues	3,562
Operating expenses:	
Cost of services (exclusive of depreciation and amortization)	1,512
Salaries	1,184
General and administrative	244
Bad debt	184
Depreciation	19
Total operating expenses	3,143
Income from operations	419
Other income:	
SBA loan forgiveness	161
Gain on investments	6
Other income	16
Other income	183
Net income	$ 602

See accompanying notes to financial statements

SKYNET TELECOM, LLC
Statement of Changes in Members' Equity
Year Ended July 31, 2021
(In thousands)

	Members' Equity
Balance at July 31, 2020	$ 747
Member distributions	(482)
Net income	602
Balance at July 31, 2021	$ 867

See accompanying notes to financial statements

SKYNET TELECOM, LLC
Statement of Cash Flows
(In thousands)

	For the Year Ended July 31, 2021
Operating Activities	
Net income	$ 602
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	19
Bad debt	(184)
SBA loan forgiveness	(161)
Investment (gain)	(6)
Changes in operating assets and liabilities:	
Receivables	287
Inventory	(2)
Accounts payable and accrued expenses	59
Lease asset and liability	(6)
Net cash provided by operating activities	608
Financing Activities	
Member distributions	(482)
Net cash used by financing activities	(482)
Change in cash and cash equivalents	126
Cash and cash equivalents at beginning of year	616
Cash and Cash Equivalents at End of Year	$ 742
Supplemental Disclosures	
Income taxes paid in cash	$ 9
Interest paid in cash	$ -

See accompanying notes to financial statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activities: Skynet Telecom, LLC (Company) was organized as a Texas limited liability company on January 1, 2013. The Company is a voice over Internet Protocol provider providing installation and equipment in the South Texas markets.

Revenue Recognition: The Company recognizes revenue in accordance with FASB ASC 606. The Company's revenues are generated from voice services, primarily on a subscription basis. Subscriber fees are recorded as revenue in the period during which the service is provided. Each subscription service provided is accounted for as a distinct performance obligation and revenue is recognized ratably over the monthly service period as the subscription services are delivered. Installation services are provided with subscriber purchase, priced, and billed separately and recognized at a point in time. Sales and similar taxes billed are reported directly as a liability to the taxing authority and are not included in revenue.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits held by financial institutions and any equivalent securities with a maturity of three months or less.

Accounts Receivable: Accounts receivable are reported at outstanding principal, net of an allowance for doubtful accounts of $62,911 at July 31, 2021. The allowance is generally determined based on an account-by-account review and historical trends. Accounts are charged off when collection efforts have failed, and the account is deemed uncollectible. The Company normally does not charge interest on accounts receivable but, the Company does assess late fees.

Investments: Investments are carried at fair values based on quoted market prices. Increases or decreases in fair values are recognized as gains or losses in the period in which they occur. Gains and losses (realized and unrealized) are reported as investment income, net of expenses in the accompanying statements of operations.

Inventories: Inventories consist of telecommunications equipment used in the installation of VoIP services. Inventories are stated at the lower of cost or net realizable value, with cost determined by the weighted-average cost method. The Company identifies slow moving or obsolete inventories and records appropriate provisions as needed.

Property and Equipment: Property and equipment is stated at cost. Additions, renewals, and betterments are capitalized. Expenditures for repairs and maintenance are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 5 years.

Leases: In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize on the Balance Sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted the new standard effective August 1, 2019. For all asset classes, the Company elected to not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less.

Income Taxes: The members have elected for the Company to be taxed as a partnership. Accordingly, taxable income and expenses of the Company are reportable in the returns of the individual members and the financial statements do not include any provision for federal tax purposes. The Company is subject to the Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial statements. Its tax returns for the last four years remain subject to examination.

Advertising: The Company expenses advertising costs as incurred. For the year ended July 31, 2021, advertising costs were not significant.

Concentrations and Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade accounts receivable. The Company maintains cash deposits with major banks which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal. Concentrations of credit risk with respect to accounts receivable are limited due to the Company having a large quantity of small accounts. The Company uses a third-party service to assess a potential subscriber's credit history and determine if and how much of a deposit will be required of the new subscriber, based on the resulting credit score and the level of service (and types of equipment) to be installed at the customer's premise.

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent auditor's report. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

New Accounting Pronouncements: In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Loses on financial Instruments* which requires the application of a current expected credit loss (CECL) impairment model to financial assets measured at amortized cost, including trade accounts receivable. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, financial assets with similar risk characteristics are analyzed on a collective basis. This ASU, as amended, is effective for periods beginning after December 15, 2022 with early adoption permitted. The Company does not expect for this standard to have a material effect on its financial statements.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	2021	2020
Computers	$ 101,482	$ 101,482
Office equipment and furniture	16,390	16,390
Vehicles	43,295	43,295
Total property and equipment	161,167	161,167
Less accumulated depreciation	(144,101)	(125,424)
Net property and equipment	$ 17,066	$ 35,743

NOTE C – FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles, the Company utilizes a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from or corroborated by observable market data by correlation or other means
- if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth, by level within the fair value hierarchy, the Company's liabilities measured at fair value:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
July 31, 2021:				
Cash	$ 3,723	$ -	$ -	$ 3,723
Common stock	20,371	-	-	20,371
Mutual funds	236,726	-	-	236,726
Total investments	$ 260,820	$ -	$ -	$ 260,820

NOTE D – OPERATING LEASES

The Company determines if an arrangement is an operating lease or financing lease at commencement. The Company has determined that it has no finance lease arrangements at July 31, 2021. Lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. The Company generally uses its incremental borrowing rate, which is based on information available at the lease commencement date, to determine the present value of lease payments.

The Company has an operating lease for real estate. Operating lease expense is recognized in continuing operations by amortizing the amount recorded as an asset on a straight-line basis over the lease term. In determining lease asset values, the Company considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised.

At July 31, 2021 the remaining lease term for the lease was 1.2 years and the discount rate was 5.00%. Rent expense and cash payments associated with this non-cancellable operating lease agreement approximated $46,000 in 2021. Future commitments relating to this lease agreements is as follows:

Year Ended December 31,	Total
2022	$ 47,028
2023	8,056
Total minimum future payments	55,084
Less: imputed interest	(1,693)
Present value of lease liability	$ 53,391

NOTE E – SMALL BUSINESS ADMINISTRATION LOANS

In April 2020, the Company received funding under the Paycheck Protection Program (PPP) as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA). Under the terms of the note, the Company received total proceeds of $151,250. The loan was eligible for forgiveness, provided all funds were used for payroll and other permitted expenses.

Additionally, the Company received funding under the Disaster Loan Assistance as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), administered by the SBA. The Company received total proceeds of $10,000. The loan was eligible for forgiveness, provided all funds were used for payroll and other permitted expenses.

The Company received notice that both SBA loans were forgiven in full by the SBA in December 2020. Upon receipt of forgiveness the loan forgiveness was recorded as other income in the accompanying statement of operations for the year ended July 31, 2021. Non-cash loan forgiveness is reported as an adjustment to net income in cashflows from operating activities for the year ended July 31, 2021.

NOTE F – CURRENT ECONOMIC CONDITIONS

The coronavirus outbreak (pandemic) has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering certain nonessential businesses.

The pandemic has impacted the operational and financial performance of the Company and there is uncertainty in the nature and degree of its continued effects on the Company's business over time. The extent to which it will impact business going forward, either positively or negatively, will depend on a variety of factors including the duration and continued spread of the outbreak, impact on customers, employees, and vendors, as well as governmental, regulatory, and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates.

NOTE G – SUBSEQUENT EVENT

Effective December 31, 2021, an agreement was executed for the sale of substantially all assets of the Company. Consideration exchanged consisted of $4.8 million cash and $1.0 million by issuance of restricted common stock of the purchaser, subject to adjustment based on a net working capital calculation at closing and earn-out provisions.

Financial Statements and Supplementary Data.

SKYNET TELECOM, LLC

Reviewed Financial Statements

October 31, 2021

ADKF, P.C.
Certified Public Accountants

SKYNET TELECOM, LLC
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October 31, 2021

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Members
Skynet Telecom, LLC
San Antonio, Texas

Report on the Financial Statements

We have reviewed the accompanying financial statements of Skynet Telecom, LLC (the Company), which comprise the balance sheets as of October 31, 2021, and the statement of changes in members' equity for the three months ended October 31, 2021, the statements of operations and cash flows for the three-months ended October 31, 2021 and 2020, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U. S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Report on July 31, 2021 Balance Sheet

The July 31, 2021 balance sheet was audited by us and we expressed an unmodified opinion on them in our report dated January 4, 2022. We have not performed any auditing procedures since that date.

/s/ ADKF, P.C.

San Antonio, Texas
January 18, 2022

SKYNET TELECOM, LLC
BALANCE SHEET
(In thousands)

	October 31, 2021	July 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 754	$ 742
Accounts receivable:		
Trade	126	91
Other	53	56
Investments	261	261
Inventory	-	13
Total current assets	1,194	1,163
Property and Equipment, net	15	17
Other Assets		
Operating lease right-of-use asset	35	45
Deposits and other assets	12	5
Total noncurrent assets	47	50
Total Assets	$ 1,256	$ 1,230
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 61	$ 70
Accrued expenses	254	240
Operating lease liability, current	42	46
Total current liabilities	357	356
Long-Term Liabilities:		
Small business administration loans	-	-
Lease liability	-	7
Total long-term liabilities	-	7
Members' Equity	899	867
Total Liabilities and Members' Equity	$ 1,256	$ 1,230

See independent accountants' review report and notes to the unaudited financial statements

SKYNET TELECOM, LLC
STATEMENT OF OPERATIONS
(In thousands)

	Three Months Ended October 31,	
	2021	2020
Operating revenue		
Cloud software and service revenue	$ 914	$ 987
Total operating revenues	914	987
Operating expenses:		
Cost of services (exclusive of depreciation and amortization)	457	349
Salaries	300	308
General and administrative	73	57
Bad debt	11	120
Depreciation	2	5
Total operating expenses	843	839
Income from operations	71	148
Other income:		
SBA loan forgiveness	-	-
Gain on investments	1	-
Other income	-	-
Other income	1	-
Net income	$ 72	$ 148

See independent accountants' review report and notes to the unaudited financial statements

SKYNET TELECOM, LLC
STATEMENT OF CHANGES IN MEMBERS'S EQUITY
THREE MONTHS ENDED OCTOBER 31, 2020
(In thousands)

	Members' Equity
Balance at July 31, 2021	$ 867
Member distributions	(40)
Net income	72
Balance at October 31, 2021	$ 899

See independent accountants' review report and notes to the unaudited financial statements

SKYNET TELECOM, LLC
Statement of Cash Flows
(In thousands)

	Three Months Ended October 31, 2021	Three Months Ended October 31, 2020
Operating Activities		
Net income	$ 72	$ 148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2	5
Bad debt	(11)	(120)
Investment (gain)	(1)	-
Changes in operating assets and liabilities:		
Receivables	(20)	102
Inventory	13	(6)
Deposits and other assets	(6)	-
Accounts payable and accrued expenses	5	63
Lease asset and liability	(2)	(2)
Net cash provided by operating activities	52	190
Financing Activities		
Member distributions	(40)	(105)
Net cash used by financing activities	(40)	(105)
Change in cash and cash equivalents	12	85
Cash and cash equivalents at beginning of period	742	616
Cash and Cash Equivalents at End of Period	$ 754	$ 701
Supplemental Disclosures		
Income taxes paid in cash	$ -	$ -
Interest paid in cash	$ -	$ -

See independent accountants' review report and notes to the unaudited financial statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activities: Skynet Telecom, LLC (Company) was organized as a Texas limited liability company on January 1, 2013. The Company is a voice over Internet Protocol provider providing installation and equipment in the South Texas markets.

Revenue Recognition: The Company recognizes revenue in accordance with FASB ASC 606. The Company's revenues are generated from voice services, primarily on a subscription basis. Subscriber fees are recorded as revenue in the period during which the service is provided. Each subscription service provided is accounted for as a distinct performance obligation and revenue is recognized ratably over the monthly service period as the subscription services are delivered. Installation services are provided with subscriber purchase, priced, and billed separately and recognized at a point in time. Sales and similar taxes billed are reported directly as a liability to the taxing authority and are not included in revenue.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, demand deposits held by financial institutions and any equivalent securities with a maturity of three months or less.

Accounts Receivable: Accounts receivable are reported at outstanding principal, net of an allowance for doubtful accounts of $74,394 at October 31, 2021 and $62,911 at July 31, 2021. The allowance is generally determined based on an account-by-account review and historical trends. Accounts are charged off when collection efforts have failed, and the account is deemed uncollectible. The Company normally does not charge interest on accounts receivable but, the Company does assess late fees.

Investments: Investments are carried at fair values based on quoted market prices. Increases or decreases in fair values are recognized as gains or losses in the period in which they occur. Gains and losses (realized and unrealized) are reported as investment income, net of expenses in the accompanying statements of operations.

Inventories: Inventories consist of telecommunications equipment used in the installation of VoIP services. Inventories are stated at the lower of cost or net realizable value, with cost determined by the weighted-average cost method. The Company identifies slow moving or obsolete inventories and records appropriate provisions as needed.

Property and Equipment: Property and equipment is stated at cost. Additions, renewals, and betterments are capitalized. Expenditures for repairs and maintenance are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 5 years.

Leases: In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize on the Balance Sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company early adopted the new standard effective August 1, 2019. For all asset classes, the Company elected to not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less.

Income Taxes: The members have elected for the Company to be taxed as a partnership. Accordingly, taxable income and expenses of the Company are reportable in the returns of the individual members and the financial statements do not include any provision for federal tax purposes. The Company is subject to the Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial statements. Its tax returns for the last four years remain subject to examination.

Advertising: The Company expenses advertising costs as incurred. For the three-months ended October 31, 2021 and 2020, advertising costs were not significant.

Concentrations and Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade accounts receivable. The Company maintains cash deposits with major banks which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes the risk of any loss is minimal.

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent accountant's review report. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

New Accounting Pronouncements: In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Loses on financial Instruments* which requires the application of a current expected credit loss (CECL) impairment model to financial assets measured at amortized cost, including trade accounts receivable. Under the CECL model, lifetime expected credit losses on such financial assets are measured and recognized at each reporting date based on historical, current, and forecasted information. Furthermore, financial assets with similar risk characteristics are analyzed on a collective basis. This ASU, as amended, is effective for periods beginning after December 15, 2022 with early adoption permitted. The Company does not expect for this standard to have a material effect on its financial statements.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	October 31, 2021	July 31, 2021
Computers	$ 101,482	$ 101,482
Office equipment and furniture	16,390	16,390
Vehicles	43,295	43,295
Total property and equipment	161,167	161,167
Less accumulated depreciation	(145,875)	(144,101)
Net property and equipment	$ 15,292	$ 17,066

NOTE C – FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles, the Company utilizes a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from or corroborated by observable market data by correlation or other means
- if the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth, by level within the fair value hierarchy, the Company's liabilities measured at fair value:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
October 31, 2021:				
Cash	$ 3,786	$ -	$ -	$ 3,786
Common stock	21,333	-	-	21,333
Mutual funds	236,732	-	-	236,732
Total investments	$ 261,851	$ -	$ -	$ 261,851
July 31, 2021:				
Cash	$ 3,723	$ -	$ -	$ 3,723
Common stock	20,371	-	-	20,371
Mutual funds	236,726	-	-	236,726
Total investments	$ 260,820	$ -	$ -	$ 260,820

NOTE D – OPERATING LEASES

The Company determines if an arrangement is an operating lease or financing lease at commencement. The Company has determined that it has no finance lease arrangements at October 31, 2021 or July 31, 2021. Lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. The Company generally uses its incremental borrowing rate, which is based on information available at the lease commencement date, to determine the present value of lease payments.

The Company has an operating lease for real estate. Operating lease expense is recognized in continuing operations by amortizing the amount recorded as an asset on a straight-line basis over the lease term. In determining lease asset values, the Company considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised.

At October 31, 2021 the remaining lease term for the lease was 11 months and the discount rate was 5.00%. At July 31, 2021 the remaining lease term for the lease was 1.2 years and the discount rate was 5.00%.

Rent expense associated with this non-cancellable operating lease agreement approximated $12,000 in the three-months ended October 31, 2021 and 2020. Future commitments relating to this lease agreement are as follows:

	Total
November 1, 2021 through July 31, 2022	$ 35,301
August 1, 2022 through July 31, 2023	8,055
Total minimum future payments	43,356
Less: imputed interest	(1,071)
Present value of lease liability	$ 42,285

NOTE E – SMALL BUSINESS ADMINISTRATION LOANS

In April 2020, the Company received funding under the Paycheck Protection Program (PPP) as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA). Under the terms of the note, the Company received total proceeds of $151,250. The loan was eligible for forgiveness, provided all funds were used for payroll and other permitted expenses.

Additionally, the Company received funding under the Disaster Loan Assistance as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), administered by the SBA. The Company received total proceeds of $10,000. The loan was eligible for forgiveness, provided all funds were used for payroll and other permitted expenses.

The Company received notice that both SBA loans were forgiven in full by the SBA in December 2020 and the loan forgiveness was recognized at that time.

NOTE F – CURRENT ECONOMIC CONDITIONS

The coronavirus outbreak (pandemic) has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations of a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering certain nonessential businesses.

The pandemic has impacted the operational and financial performance of the Company and there is uncertainty in the nature and degree of its continued effects on the Company's business over time. The extent to which it will impact business going forward, either positively or negatively, will depend on a variety of factors including the duration and continued spread of the outbreak, impact on customers, employees and vendors, as well as governmental, regulatory and private sector responses. Further, the pandemic may have a significant impact on management's accounting estimates.

NOTE G – SUBSEQUENT EVENT

Effective December 31, 2021, an agreement was executed for the sale of substantially all assets of the Company. Consideration exchanged consisted of $4.8 million cash and $1.0 million by issuance of restricted common stock of the purchaser, subject to adjustment based on a net working capital calculation at closing and earn-out provisions.

DIGERATI TECHNOLOGIES, INC. AND SKYNET TELECOM, LLC.

Unaudited Pro Forma Consolidated Balance Sheet
and
Unaudited Pro Forma Consolidated Statements of Operations

On December 31, 2021, our indirect, wholly owned subsidiary, Shift8 Networks, Inc., a Texas corporation (“Shift8”), executed and closed on an Asset Purchase Agreement (the “Purchase Agreement”) with Skynet Telecom LLC, a Texas limited liability company (“Seller” “Skynet”), and Paul Golibart and Jerry Ou, each an individual resident in the State of Texas (each, an “Owner” and collectively, the “Owners”). The Company also executed the Purchase Agreement.

Pursuant to the Purchase Agreement, Shift8 acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller’s communications business, including but not limited to subscriber-based Interconnected Voice Over Internet Protocol communication services (“I-VoIP”), Unified Cloud Communications Services (“UCCS”), and IPPBX based systems of telephony (collectively, the “Purchased Assets”).

The aggregate purchase price for the Purchased Assets was $5,800,000, subject to adjustment as provided in the Purchase Agreement (the “Purchase Price”). An amount of $4,100,000 in cash, subject to a Net Working Capital Adjustment as defined in the Purchase Agreement, was paid by Shift8 on the Closing Date. Included within the $4.1 million cash payment were amounts paid by Shift8 directly to creditors of the Seller as set forth in payoff letters. An additional $600,000 (the “Earn-out Amount”) was retained by Shift8 at the Closing and will be paid to Seller in accordance with the Purchase Agreement. An additional $100,000 (the “Holdback Amount”) was retained by Shift8 at the Closing and will be paid to Seller in accordance with the Purchase Agreement. Finally, $1,000,000 (the “Share Payment”) will be paid by Shift8 to Seller by issuance of restricted shares of the Company’s common stock to the Owners. The Share Payment will be made via the issuance of shares on the earlier of (i) the effective date of that certain Registration Statement on Form S-1 (File No. 333-258733) filed by the Company with the Securities and Exchange Commission on August 11, 2021 (in which case the stock will be valued at the price set forth in the prospectus that is a part of such Registration Statement, without underwriter discounts) and (ii) 180 days after December 31, 2021 (in which case the stock will be valued at the average of the last transaction price on the OTCQB for each of the 10 trading days immediately preceding such issuance date).

Certain Seller assets were excluded from Shift8’s purchase, including, but not limited to, cash held by the Seller, real property owned by the Seller and Owners, and certain contracts.

In connection with the Purchase Agreement, each of the Owners entered into Registration Rights Agreements and Lock-up Agreements with the Company. Pursuant to the Registration Rights Agreements, the Company shall give each Owner reasonable written notice of its intention to file a registration statement to register any of the shares issued by the Company other than registration statements on the Form S-1 referred to above or on Forms S-4 or S-8. The Owners have the right, subject to certain limitations, to require the Company to include some or all of the shares issued in the Share Payment in any such registration statement. Pursuant to the Lock-up Agreements, the Owners’ ability to sell or transfer their shares will be restricted during the period from December 31, 2021 until the earlier of (a) 180 days after the effective date of a registration statement under the Securities Act of 1933, as amended (“Securities Act”), that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act or (b) 12 months from December 31, 2021.

The unaudited pro forma condensed consolidated combined financial information presented below has been prepared on the basis set forth in the notes below and have been presented to illustrate the estimated effects of the Skynet Asset Acquisition. The Skynet Asset Acquisition is being accounted for as a business combination using the acquisition method with the Company as the accounting acquirer in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 805, Business Combinations.

The historical financial information of the Company has been derived from the unaudited consolidated financial statements of the Company as of October 31, 2021, as found in Form 10Q which was filed with the Securities and Exchange Commissions on December 14, 2021.

The historical financial information of Skynet has been derived from the unaudited financial statements of the Seller Parties as of and for the three months ended October 31, 2021, included in Exhibit 99.2 to the Company's Form 8-K/A filed with the SEC on January 21, 2022.

The historical financial information of the Company has been derived from the audited consolidated financial statements of the Company as of July 31, 2021, as found in Form 10K which was filed with the Securities and Exchange Commissions on October 26, 2021.

The historical financial information of Skynet has been derived from the audited financial statements of the Seller Parties for the year ended July 31, 2021, included in Exhibit 99.1 to the Company's Form 8-K/A filed with the SEC on January 21, 2022.

The following unaudited pro forma consolidated balance sheet as of October 31, 2021, and the unaudited pro forma consolidated statement of operations for the three months ended October 31, 2021, and twelve months ended July 31, 2021 (collectively, the "Pro Forma Statements") have been prepared in compliance with the requirements of SEC Regulation S-X Article 11 using accounting policies in accordance with U.S. GAAP.

The pro forma adjustments presented below are based on preliminary estimates and currently available information and assumptions that management believes are reasonable and appropriate under the circumstances and are factually supported based on information currently available. The notes to the unaudited pro forma condensed consolidated combined financial information provide a discussion of how such adjustments were derived and presented in the Pro Forma Statements. Changes in facts and circumstances or discovery of new information may result in revised estimates. As a result, there may be material adjustments to the Pro Forma Statements. Certain historical financial statement caption amounts for Skynet have been reclassified or combined to conform to presentation and the disclosure requirements of the combined company.

DIGERATI TECHNOLOGIES, INC. AND SKYNET TELECOM, LLC.
Unaudited Pro Forma Consolidated Balance Sheet
(In thousands)
As of October 31, 2021

	Historical (unaudited)		Pro Forma		Pro Forma
	Digerati	SkyNet	Adjustments	Note 3	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,646	$ 754	$ (754)	(a)	$ 1,646
Accounts receivable, net	471	179	(55)	(e)	595
Prepaid and other current assets	218	261	(253)	(e)	226
Total current assets	2,335	1,194	(1,062)		2,467
LONG-TERM ASSETS:					
Intangible assets, net	8,093	-	4,176	(b)	12,269
Goodwill, net	3,931	-	1,624	(c)	5,555
Property and equipment, net	499	15	1	(d)	515
Other assets	79	12	(6)	(e)	85
Investment in Itellum	185	-	-		185
Right-of-use asset	822	35	10	(d)	867
Total assets	$ 15,944	$ 1,256	$ 4,743		$ 21,943
LIABILITIES AND STOCKHOLDERS' DEFICIT					
CURRENT LIABILITIES:					
Accounts payable	$ 1,937	$ 61	(36)	(e)	$ 1,962
Accrued liabilities	2,703	254	(113)	(e)	2,844
Equipment financing	28	-	-		28
Convertible note payable, current, net $212	1,477	-	-		1,477
Note payable, current, related party, net $0	1,000	-	1,500	(a)	2,500
Note payable, current, net $286	3,438	-	4,088	(f)	7,526
Deferred income	3	-	-		3
Derivative liability	12,340	-	-		12,340
Operating lease liability, current	478	42	3	(d)	523
Total current liabilities	23,404	357	5,442		29,203
LONG-TERM LIABILITIES:					
Notes payable, related party, net $0	-	-	200	(a)	200
Note payable, net $4,293	6,727	-	-		6,727
Operating lease liability	344	-	-		344
Total long-term liabilities	7,071	-	200		7,271
Total liabilities	30,475	357	5,642		36,474
Commitments and contingencies					
STOCKHOLDERS' DEFICIT:					
Preferred stock, $0.001, 50,000,000 shares authorized					
Convertible Series A Preferred stock, $0.001, 1,500,000 shares designated, 225,000 issued and outstanding	-	-	-		-
Convertible Series B Preferred stock, $0.001, 1,000,000 shares designated, 425,442 issued and outstanding	-	-	-		-
Convertible Series C Preferred stock, $0.001, 1,000,000 shares designated, 55,400 issued and outstanding	-	-	-		-
Series F Super Voting Preferred stock, $0.001, 100 shares designated, 100 issued and outstanding	-	-	-		-
Common stock, $0.001, 150,000,000 shares authorized, 139,138,039 issued and outstanding (25,000,000 reserved in Treasury)	139	-	-		139
Additional paid in capital	89,157	-	-		89,157
(Accumulated deficit) Retained earnings	(102,956)	899	(899)	(g)	(102,956)
Other comprehensive income	1	-	-		1
Total Digerati's stockholders' deficit	(13,659)	899	(899)		(13,659)
Noncontrolling interest	(872)	-	-		(872)
Total stockholders' deficit	(14,531)	899	(899)		(14,531)
Total liabilities and stockholders' deficit	$ 15,944	$ 1,256	$ 4,743		$ 21,943

See accompanying notes to unaudited pro forma consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SKYNET TELECOM, LLC.
Unaudited Pro Forma Consolidated Statement of Operations
(In thousands, except per share amounts)
For the Three Months Ended October 31, 2021

	Historical (unaudited)		Pro Forma		Pro Forma
	Digerati	**SkyNet**	**Adjustments**	**Note 3**	**Consolidated**
OPERATING REVENUES:					
Cloud software and service revenue	$ 3,777	$ 914	$ -		$ 4,691
Total operating revenues	3,777	914	-		4,691
OPERATING EXPENSES:					
Cost of services (exclusive of depreciation and amortization)	1,490	457	-		1,947
Selling, general and administrative expense	1,788	373	-		2,161
Legal and professional fees	574	-	-		574
Bad debt	13	11	-		24
Depreciation and amortization expense	492	2	160	(h)	654
Total operating expenses	4,357	843	160		5,360
OPERATING INCOME (LOSS)	(580)	71	(160)		(669)
OTHER INCOME (EXPENSE):					
Gain (loss) on derivative instruments	4,433	-	-		4,433
Income tax benefit (expense)	(77)	-	-		(77)
Other income (expense)	(4)	1	-		(3)
Interest expense	(1,506)	-	(138)	(i)	(1,644)
Total other expense	2,846	1	(138)		2,709
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	2,266	72	(298)		2,040
Less: Net loss attributable to the noncontrolling interests	158	-	45	(j)	203
NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS	2,424	72	(253)		2,243
Deemed dividend on Series A Convertible preferred stock	(5)	-	-		(5)
NET INCEOM (LOSS) ATTRIBUTABLE TO DIGERATI'S COMMON SHAREHOLDERS	$ 2,419	$ 72	$ (253)		$ 2,238
LOSS PER COMMON SHARE - BASIC	$ 0.02				$ 0.02
LOSS PER COMMON SHARE - DILUTED	$ 0.01				$ 0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	138,719,017				138,719,017
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	250,723,611				250,723,611

See accompanying notes to unaudited pro forma consolidated financial statements

DIGERATI TECHNOLOGIES, INC. AND SKYNET TELECOM, LLC.
Unaudited Pro Forma Consolidated Statement of Operations
(In thousands, except share amounts)
For the Year Ended July 31, 2021

	Historical		Pro forma		Pro Forma
	Digerati	SkyNet	Adjustments	Note 3	Consolidated
OPERATING REVENUES:					
Cloud software and service revenue	$ 12,416	$ 3,562	$ -		$ 15,978
Total operating revenues	12,416	3,562	-		15,978
OPERATING EXPENSES:					
Cost of services (exclusive of depreciation and amortization)	5,135	1,512	-		6,647
Selling, general and administrative expense	7,019	1,428	-		8,447
Legal and professional fees	894	-	-		894
Bad debt	17	184	-		201
Depreciation and amortization expense	1,749	19	641	(h)	2,409
Total operating expenses	14,814	3,143	641		18,598
OPERATING INCOME (LOSS)	(2,398)	419	(641)		(2,620)
OTHER INCOME (EXPENSE):					
Gain on derivative instruments	(9,935)	-	-		(9,935)
Gain on settlement of debt	560	161	-		721
Income tax benefit	(183)	-	-		(183)
Other income	(294)	22	-		(272)
Interest expense	(4,765)	-	(552)	(i)	(5,317)
Total other expense	(14,617)	183	(552)		(14,986)
NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST	(17,015)	602	(1,193)		(17,606)
Less: Net loss attributable to the noncontrolling interests	332	-	118	(j)	450
NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS	(16,683)	602	(1,075)		(17,156)
Deemed dividend on Series A Convertible preferred stock	(20)	-	-		(20)
NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S COMMON SHAREHOLDERS	$ (16,703)	$ 602	$ (1,075)		$ (17,176)
LOSS PER COMMON SHARE - BASIC	$ (0.13)				$ (0.13)
LOSS PER COMMON SHARE - DILUTED	$ (0.13)				$ (0.13)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	129,411,947				129,411,947
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	129,411,947				129,411,947

See accompanying notes to unaudited pro forma consolidated financial statements

<u>**Notes to the Unaudited Pro Forma Consolidated Financial Statements**</u>

Note 1 — Basis of Presentation and Description of Transactions

The unaudited pro forma consolidated financial statements were prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of SEC Regulation S-X and presents the pro forma financial position and results of operations of the combined companies based upon the historical data of the Company and Skynet.

Basis of Presentation

The historical financial information of the Company has been derived from the unaudited consolidated financial statements of the Company as of October 31, 2021, as found in Form 10Q which was filed with the Securities and Exchange Commissions on December 14, 2021.

The historical financial information of Skynet has been derived from the unaudited financial statements of the Seller Parties as of and for the three months ended October 31, 2021, included in Exhibit 99.2 to the Company's Form 8-K/A filed with the SEC on January 21, 2022.

The historical financial information of the Company has been derived from the audited consolidated financial statements of the Company as of July 31, 2021, as found in Form 10K which was filed with the Securities and Exchange Commissions on October 26, 2021.

The historical financial information of Skynet has been derived from the audited financial statements of the Seller Parties for the year ended July 31, 2021, included in Exhibit 99.1 to the Company's Form 8-K/A filed with the SEC on January 21, 2022.

The historical consolidated financial statements have been adjusted in the pro forma consolidated financial statements to give effect to pro forma events that are (1) directly attributable to the Skynet Asset Acquisition, (2) factually supportable and (3) with respect to the pro forma consolidated statement of operations, expected to have a continuing impact on the combined results of the Company following the Skynet Asset Acquisition.

The Skynet Asset Acquisition is being accounted for as a business combination using the acquisition method with the Company as the accounting acquirer in accordance with ASC Topic 805, Business Combinations. As the accounting acquirer, the Company has estimated the fair value of Skynet assets acquired and liabilities assumed and conformed the accounting policies of Skynet to its own accounting policies.

The pro forma consolidated financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

Note 2 — Preliminary purchase price allocation

Description of Transaction

On December 31, 2021, our indirect, wholly owned subsidiary, Shift8 Networks, Inc., a Texas corporation ("Shift8"), executed and closed on an Asset Purchase Agreement (the "Purchase Agreement") with Skynet Telecom LLC, a Texas limited liability company ("Seller" "Skynet"), and Paul Golibart and Jerry Ou, each an individual resident in the State of Texas (each, an "Owner" and collectively, the "Owners"). The Company also executed the Purchase Agreement.

Pursuant to the Purchase Agreement, Shift8 acquired the customer base, certain equipment, certain intellectual property, inventory, contract rights, software and other licenses and miscellaneous assets used in connection with the operation of Seller's communications business, including but not limited to subscriber-based Interconnected Voice Over Internet Protocol communication services ("I-VoIP"), Unified Cloud Communications Services ("UCCS"), and IPPBX based systems of telephony (collectively, the "Purchased Assets").

The aggregate purchase price for the Purchased Assets was $5,800,000, subject to adjustment as provided in the Purchase Agreement (the "Purchase Price"). An amount of $4,100,000 in cash, subject to a Net Working Capital Adjustment as defined in the Purchase Agreement, was paid by Shift8 on the Closing Date. Included within the $4.1 million cash payment were amounts paid by Shift8 directly to creditors of the Seller as set forth in payoff letters. An additional $600,000 (the "Earn-out Amount") was retained by Shift8 at the Closing and will be paid to Seller in accordance with the Purchase Agreement. An additional $100,000 (the "Holdback Amount") was retained by Shift8 at the Closing and will be paid to Seller in accordance with the Purchase Agreement. Finally, $1,000,000 (the "Share Payment") will be paid by Shift8 to Seller by issuance of restricted shares of the Company's common stock to the Owners.

The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed for the Skynet Asset Acquisition:

		Skynet (in thousands)
Accounts receivable, net	$	124
Inventory		8
Intangible assets and Goodwill		5,800
Property and Equipment, net		16
Operating lease right-of-use asset		45
Deposits and other assets		6
Total identifiable assets	**$**	**5,999**
Less: Liabilities assumed		211
Total Purchase price	**$**	**5,788**

The following table summarizes the cost of intangible assets related to the acquisition:

		Skynet (in thousands)	Useful Life (in years)
Customer Relationships	$	2,378	7
Trade Names and Trademarks		1,624	7
Non-Compete Agreement		174	2-3
Goodwill		1,624	-
Total intangible assets	**$**	**5,800**	

Note 3 — Pro forma adjustments

The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma consolidated financial statements:

a) Adjustment to reflect the consideration transferred by the Company, which includes:

- Cash paid at the closing of the Skynet Asset Acquisition of $4.1 million.
- Elimination of $754,000 for the net cash not retained by the Company;
- $600,000 in earn-out associated with the Customer Renewal Value, of which $400,000 is due in quarterly payments during the first year from the Skynet Asset Acquisition and included in the Current Note payable, related party in the pro forma balance sheet, and $200,000 is due in quarterly payments during the second year from the Skynet Asset Acquisition and included in the long term Note Payable, related party, net of current portion in the pro forma balance sheet.
- $100,000 indemnification holdback due within the first year from the Skynet Asset Acquisition and included in the Current Note payable, related party in the pro forma balance sheet.

- $1,000,000 is included in the Current Note payable, related party in the pro forma balance sheet until the restricted common stock is issued on the earlier of (i) the effective date of that certain Registration Statement on Form S-1 (File No. 333-258733) filed by the Company with the SEC on August 11, 2021 (in which case the Stock will be valued at the price set forth in the prospectus that is a part of such Registration Statement, without underwriter discounts) and (ii) 180 days after the Closing Date (in which case the Stock will be valued at the average of the last transaction price on the OTCQB for each of the 10 trading days immediately preceding such issuance date).

b) Represents the preliminary purchase price allocated to the intangible assets based on the estimated fair values as follows:

Customer relationships: The fair value of the customer relationships was determined using an income approach based upon management's assessment of prospective financial information and a discount rate based upon the Company's weighted average cost of capital.

Non-compete provisions: The fair value of the non-compete provisions, was determined using an income approach based upon management's assessment of prospective financial information, including an estimated impact of competition, and a discount rate based upon the Company's weighted average cost of capital.

Trade Names and Trademarks: The fair value of the Trade names and trademarks were determined using an income approach based upon management's assessment of prospective revenues, a royalty rate selected from a range of comparable licensing transactions and a discount rate based upon the Company's weighted average cost of capital.

c) Represents the preliminary purchase price allocated to goodwill in the Skynet Asset Acquisition. Goodwill represents the excess of the consideration transferred over the preliminary fair value of the net tangible and intangible assets acquired. Goodwill will not be amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment. In the event management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of the impairment during the period in which the determination is made.

d) Adjustment to reflect the Property and equipment, right-of-use asset, and operating lease liability, acquired by the Company in the Skynet Asset Acquisition.

e) Adjustment to eliminate certain Accounts receivables, Prepaid and other current assets, Accounts payable, and accrued liabilities, which were not transferred to the Company in the Skynet Asset Acquisition.

f) Represents cash secured by the Company $4.088 million for the initial net cash payment made at closing for the Skynet Asset Acquisition and included in the Long Term Note payable in the pro forma balance sheet. The financing was secured as part of the Amended Credit Agreement and Note with Post Road and previously disclosed. ***(Per Item 1.01, Form 8-K filed with the SEC on December 23, 2021.)***

g) Adjustment to eliminate Skynet's historical additional paid-in capital and retained earnings.

h) Represents the future quarterly and annual amortization of the intangible assets based upon their estimated useful lives. The estimated useful lives were determined based on a review of the time period over which the economic benefit of each intangible asset is estimated to be generated.

i) Represents interest expense incurred on the borrowings from the credit facility used to fund the acquisition at an interest rate of approximately 14.0%, as well as the amortization of the related deferred financing costs.

j) Adjustment to allocate T3 Communications, Inc., Digerati's operating subsidiary, net (loss) to redeemable noncontrolling interest holders, this is reflected in Digerati's consolidated financial statements. The net (loss) allocated to noncontrolling interest is computed by applying the 19.99% ownership interest in T3 Communications, Inc.