

# DIGERATI TECHNOLOGIES, INC.

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

Filed 02/11/22 for the Period Ending 02/04/22

|             |  |
|-------------|--|
| Address     | 825 W. BITTERS RD.,<br>SUITE 104<br>SAN ANTONIO, TX, 78216 |
| Telephone   | (210) 775-0888   |
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| Sector      | Telecommunication Services                                 |
| Fiscal Year | 07/31  |

**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) February 4, 2022

**Digerati Technologies, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation)

001-15687

(Commission  
File Number)

74-2849995

(IRS Employer  
Identification No.)

825 W. Bitters, Suite 104, San Antonio, TX

(Address of Principal Executive Offices)

78216

(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 February 10, 2022, Digerati Technologies, Inc. (the “Company”) filed a Current Report on Form 8-K (the “Initial Form 8-K”) reporting under the completion of the acquisition of Next Level Internet, Inc., a California corporation (“Next Level”), by our majority owned subsidiary, T3 Communications, Inc., a Nevada corporation, via an Equity 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 sheets of Next Level as of July 31, 2021 and 2020, the related audited statements of operations, changes in stockholders' deficit, and cash flows for the years ended July 31, 2021 and 2020, the notes related thereto and the Independent Auditor's Report, are attached hereto as Exhibit 99.1, and incorporated herein by reference.

The unaudited balance sheet of Next Level as of October 31, 2021, the related unaudited statements of operations, changes in stockholders' deficit, and cash flows for the three months ended October 31, 2021 and 2020, and 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 consolidated balance sheet of the Company as of October 31, 2021, the unaudited pro forma consolidated statements 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 Next Level's assets, are attached hereto as Exhibit 99.3 and incorporated herein by reference.

### (c) Exhibits.

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 99.1               | <a href="#">Audited financial statements of Next Level Internet, Inc., for the years ended July 31, 2020 and 2021.</a>   |
| 99.2               | <a href="#">Unaudited Financial Statements of Next Level Internet, Inc., as of October 31, 2021 and for the three months ended October 31, 2021, and 2020.</a>   |
| 99.3               | <a href="#">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 Next Level Internet, Inc.</a> |
| 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: February 11, 2022

**Digerati Technologies, Inc.**

By: /s/ Antonio Estrada Jr.

Antonio Estrada Jr.,  
Chief Financial Officer

**Next Level Internet, Inc.**  
**Audited Financial Statements**  
**As of and For the Years Ended July 31, 2021 and 2020**

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Next Level Internet, Inc.

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July 31, 2021 and 2020

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Next Level Internet, Inc.

We have audited the accompanying financial statements of Next Level Internet, Inc. (the "Company"), which comprise the balance sheets as of July 31, 2021 and 2020, and the related statements of operations, stockholders' deficit, and cash flows for the years ended July 31, 2021 and 2020, 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 accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

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

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 controls. 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 Next Level Internet, Inc. as of July 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**UHY** LLP

Melville, New York  
December 23, 2021



**Next Level Internet, Inc.**  
**Balance Sheets**

|  | <b>July 31,</b> |              |
|--|-----------------|--------------|
|  | <b>2021</b>     | <b>2020</b>  |
| <b>ASSETS</b>  |                 |              |
| <b>Current assets</b>  |                 |              |
| Cash   | \$ 735,041      | \$ 1,215,122 |
| Accounts receivables, net  | 611,466         | 509,669      |
| Prepaid expenses and other current assets  | 493,008         | 427,129      |
| Total current assets   | 1,839,515       | 2,151,920    |
| Capitalized software, net  | 31,161          | -            |
| Property and equipment, net  | 1,334,418       | 1,188,733    |
| Other assets   | 403,831         | 398,041      |
| Right of use asset, net  | 1,377,218       | 1,628,944    |
|  | \$ 4,986,143    | \$ 5,367,638 |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                 |              |
| <b>Current liabilities</b>   |                 |              |
| Accounts payable   | \$ 284,538      | \$ 359,064   |
| Accrued expenses   | 834,217         | 649,802      |
| Accrued taxes and penalties  | 4,275,334       | 3,230,650    |
| Deferred revenue   | 1,233,515       | 1,003,082    |
| Customer deposits  | 784,032         | 660,697      |
| Equipment financing, current   | 41,559          | 46,662       |
| Notes payable, related parties   | 555,600         | 400,000      |
| Finance leases, current  | 17,226          | 20,159       |
| Operating lease liability, current   | 288,524         | 265,268      |
| Total current liabilities  | 8,314,545       | 6,635,384    |
| Equipment financing  | 11,474          | 52,990       |
| Finance leases   | -               | 17,226       |
| Operating lease liability  | 1,260,532       | 1,549,056    |
| Paycheck protection program loan   | -               | 685,600      |
|  | 9,586,551       | 8,940,256    |
| <b>Stockholders' deficit</b>   |                 |              |
| Common stock; \$1 par value, 1,500 shares authorized and 1,500 shares issued and outstanding at July 31, 2021 and 2020 | 1,500           | 1,500        |
| Additional paid-in capital   | 171,000         | 41,000       |
| Accumulated deficit  | (4,772,908)     | (3,615,118)  |
| Total stockholders' deficit  | (4,600,408)     | (3,572,618)  |
|  | \$ 4,986,143    | \$ 5,367,638 |

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

**Next Level Internet, Inc.**  
**Statements of Operations**

|  | <b>Years Ended July 31,</b> |                       |
|--|-----------------------------|-----------------------|
|  | <b>2021</b>                 | <b>2020</b>           |
| Revenues   | \$ 11,565,757               | \$ 10,080,090         |
| Costs and expenses   |                             |                       |
| Costs of revenues (exclusive of depreciation and amortization) | 4,829,216                   | 3,752,053             |
| Operating expenses   | 7,459,954                   | 7,251,647             |
| Depreciation and amortization                                  | 391,958                     | 268,079               |
| Total costs and expenses                                       | <u>12,681,128</u>           | <u>11,271,779</u>     |
| Operating loss   | (1,115,371)                 | (1,191,689)           |
| Other income (expense):  |                             |                       |
| Interest expense   | (37,795)                    | (54,494)              |
| Other (expense) income   | (4,624)                     | 13,367                |
| Gain from extinguishment of debt                               | 685,600                     | -                     |
| Total other income (expense)                                   | <u>643,181</u>              | <u>(41,127)</u>       |
| Net loss   | <u>\$ (472,190)</u>         | <u>\$ (1,232,816)</u> |

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

**Next Level Internet, Inc.**  
**Statements of Changes in Stockholders' Deficit**  
**For the Years Ended July 31, 2021 and 2020**

|                           | <u>Common Stock</u> |                 | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Total</u>          |
|---------------------------|---------------------|-----------------|---|--------------------------------|-----------------------|
|                           | <u>Shares</u>       | <u>Value</u>    |   |                                |                       |
| Balance at August 1, 2019 | 1,500               | \$ 1,500        | \$ 41,000                                 | \$ (2,174,784)                 | \$ (2,132,284)        |
| Distributions             | -                   | -               | -   | (207,518)                      | (207,518)             |
| Net loss                  | -                   | -               | -   | (1,232,816)                    | (1,232,816)           |
| Balance at July 31, 2020  | 1,500               | 1,500           | 41,000                                    | (3,615,118)                    | (3,572,618)           |
| Contributions             | -                   | -               | 130,000                                   | -                              | 130,000               |
| Distributions             | -                   | -               | -   | (685,600)                      | (685,600)             |
| Net loss                  | -                   | -               | -   | (472,190)                      | (472,190)             |
| Balance at July 31, 2021  | <u>1,500</u>        | <u>\$ 1,500</u> | <u>\$ 171,000</u>                         | <u>\$ (4,772,908)</u>          | <u>\$ (4,600,408)</u> |

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

**Next Level Internet, Inc.**  
**Statements of Cash Flows**

|   | <b>Years Ended July 31,</b> |                     |
|---|-----------------------------|---------------------|
|   | <b>2021</b>                 | <b>2020</b>         |
| <b>Cash flows from operating activities</b>                                     |                             |                     |
| Net loss  | \$ (472,190)                | \$ (1,232,816)      |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                             |                     |
| Depreciation and amortization   | 391,958                     | 268,079             |
| Amortization of ROU asset - operating   | 251,726                     | 242,829             |
| Gain from extinguishment of debt  | (685,600)                   | -                   |
| Bad debt expense  | 50,058                      | (53,413)            |
| Changes in operating assets and liabilities:                                    |                             |                     |
| Accounts receivable   | (151,855)                   | (76,377)            |
| Prepaid expenses and other current assets                                       | (65,879)                    | 103,087             |
| Related party note receivable   | (5,790)                     | (126,734)           |
| Accounts payable  | (74,526)                    | 254,979             |
| Accrued expenses  | 184,415                     | 239,303             |
| Accrued taxes and penalties   | 1,044,684                   | 793,865             |
| Deferred revenue  | 230,433                     | 207,456             |
| Customer deposits   | 123,335                     | 98,315              |
| Operating lease liability   | (265,268)                   | (119,774)           |
| Net cash provided by operating activities                                       | <u>555,501</u>              | <u>598,799</u>      |
| <b>Cash flows from investing activities</b>                                     |                             |                     |
| Capitalization of software development costs                                    | (46,741)                    | -                   |
| Purchase of property and equipment  | (522,063)                   | (705,348)           |
| Net cash used in investing activities   | <u>(568,804)</u>            | <u>(705,348)</u>    |
| <b>Cash flows from financing activities</b>                                     |                             |                     |
| Repayments of equipment financing   | (46,619)                    | (34,241)            |
| Repayments of notes payable, related parties                                    | 155,600                     | (300,000)           |
| Proceeds from notes payable, related parties                                    | -                           | 600,000             |
| Proceeds from Paycheck Protection Program loan                                  | -                           | 685,600             |
| Repayments on finance leases  | (20,159)                    | (18,698)            |
| Capital contributions   | 130,000                     | -                   |
| Capital distributions   | (685,600)                   | (207,518)           |
| Net cash (used in) provided by financing activities                             | <u>(466,778)</u>            | <u>725,143</u>      |
| Net (decrease) increase in cash   | (480,081)                   | 618,594             |
| Cash, at beginning of year  | <u>1,215,122</u>            | <u>596,528</u>      |
| Cash, at end of year  | <u>\$ 735,041</u>           | <u>\$ 1,215,122</u> |
| <b>Supplemental information:</b>  |                             |                     |
| Interest expense paid in cash   | <u>\$ 37,795</u>            | <u>\$ 54,494</u>    |

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

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Next Level Internet, Inc. (the “Company”) is a leading provider of cloud-based Unified Communications as a Service (“UCaaS”) solutions, contact center, and managed connectivity services. The Company has a high-capacity network with nationwide reach and has nearly 1,000 customers across a diverse set of high-value sectors; target multi-location small and medium sized businesses and mid-market customers primarily through regionally focused channel partners.

**Basis of Presentation**

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. As of July 31, 2021 and 2020, there were no cash equivalents.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value of Financial Instruments**

The Company applies fair value accounting for all financial assets and liabilities and non- financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

The estimated fair value of financial instruments is determined by the Company using available market information and valuation methodologies considered to be appropriate. At July 31, 2021, the carrying value of the Company's accounts receivable, accounts payable, and accrued expenses approximated their fair values due to their short-term maturities.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable**

Accounts receivable consists of outstanding amounts due from the sale of products and services. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable are written off when they are determined to be uncollectible. The Company believes that an allowance for doubtful accounts of \$27,660 and \$127,017 at July 31, 2021 and 2020, respectively, is adequate based on historical experience. Credit losses, when realized, have been within the range of the Company's expectations.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets per the table below:

|                             |   |
|-----------------------------|---|
| Customer premises equipment | 5 years                                       |
| Furniture and fixtures      | 7 years                                       |
| Leasehold improvements      | Shorter of useful life of asset or lease term |
| Software                    | 3 years                                       |
| Network equipment           | 5 years                                       |

**Revenue Recognition**

The Company accounts for revenues under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("Topic 606"). The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized utilizing the five-step process as prescribed by Topic 606:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition (Continued)**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and represents the unit of account in applying the revenue recognition guidance provided by Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's performance obligations are satisfied over time as services are rendered or at a point in time depending on when the customer obtains control of the promised goods or services. Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs when services are rendered.

Revenues include revenues received from the sale of integrated cloud solutions and business services and is comprised of monthly recurring revenue ("MRRs"), usage charges, and professional services for configuration. MRRs include the fees paid by customers for services and are recognized over the period that the corresponding services are rendered to the customers. Usage and access charges are recognized monthly as services are provided. Professional services are primarily billed on a fixed-fee basis and revenue is recognized over time, generally as services are activated for the customer.

**Deferred Revenue**

Deferred revenue represents amounts billed to or collected from customers for which the related revenue has not been recognized because one or more of the performance obligations have not been met. The current portion of deferred revenue is expected to be recognized as revenue within 12 months from the balance sheet date.

**Costs to Obtain a Customer Contact**

Direct incremental costs of obtaining a contract, consisting of sales commissions, are deferred and amortized over the estimated life of the customer, which is currently 36 months. The Company calculates the estimated life of the customer on an annual basis. The Company classifies deferred commissions as prepaid expenses or other noncurrent assets based on the timing of when it expects to recognize the expense.

**Customer Deposits**

The Company in some instances requires customers to make a last month deposit to be applied to outstanding balances if services are cancelled. If the customer's account is paid in full, the Company will refund the full deposit in the month following service termination.



**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Costs of Revenues**

Costs of revenues include bandwidth, colocation, infrastructure and install charges in connection with the Company's UCaaS or cloud communication services. The bandwidth charges are incurred as part of the connectivity between the Company's customers to allow them to access various services. The Company also incurs costs from underlying providers for fiber, internet broadband, and telecommunication circuits in connection with the Company's data and connectivity solutions. Install costs include the installation of necessary equipment and professional services they may be incurred for engineering. All remaining charges are classified as infrastructure costs.

**Capitalized Software**

The Company complies with the guidance of ASC Topic 350-40, "Intangibles—Goodwill and Other—Internal Use Software", in accounting for of its internally developed system projects that it utilizes to provide its services to customers. These system projects generally relate to software of the Company that is not intended for sale or otherwise marketed. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Once a project has reached the development stage, the Company capitalizes direct internal and external costs until the software is substantially complete and ready for its intended use. Costs for upgrades and enhancements are capitalized, whereas, costs incurred for maintenance are expensed as incurred. These capitalized software costs are amortized on a project-by project basis over the expected economic life of the underlying software on a straight-line basis, which is generally three years. Amortization commences when the software is available for its intended use.

**Impairment of Long-Lived Assets**

The Company reviews long lived assets, including property and equipment, capitalized software, and right of use assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Recoverability measurement and estimating of undiscounted cash flows for assets to be held and used is done at the lowest possible levels for which there are identifiable cash flows. If the projected undiscounted cash flows are less than the carrying value, the amount of impairment, if any, recognized would be equal to the amount by which the carrying amount of the assets exceeds the fair value of the assets, which the Company would compute using a discounted cash flow approach. Assets to be disposed of are recorded at the lower of the carrying amount or fair value less costs to sell.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Concentration of Credit Risk**

The Company maintains its cash in bank deposit accounts that are insured by the FDIC up to \$250,000. As of July 31, 2021, and 2020, the Company had \$277,186 and \$1,000,220, respectively, of uninsured cash balances. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Leases**

The Company's leases are accounted for under Financial Accounting Standards Board ("FASB") ASC Topic 842, *Leases* ("Topic 842"). At inception of the arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present and whether the lease meets the classification criteria of a finance or operating lease. For operating leases with terms greater than 12 months, the Company records a right-of-use ("ROU") asset and lease obligation at the present value of lease payments over the term using the implicit interest rate, when readily available, or its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Options to extend or terminate a lease are included in the calculation for the lease term to the extent the option is reasonably certain of exercise. The Company does not recognize ROU assets and lease liabilities for leases with terms at inception of twelve months or less. The Company recognizes the lease expense for operating leases on a straight-line basis in the statement of operations over the lease term.

Finance leases are included in property and equipment and equipment financing on the balance sheets. Finance leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term. Amortization and interest expense associated with finance leases are included in operating expenses and interest expense, respectively, on the statements of operations.

**Income Taxes**

The Company has elected under the Internal Revenue Code and related state provisions to be an S-Corporation. In lieu of corporate income taxes, the stockholders of an S-Corporation are taxed at their proportionate share of the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in the financial statements.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Advertising**

The Company expenses advertising costs as they are incurred. Advertising expense was \$37,976 and \$60,264 for the years ended July 31, 2021 and 2020, respectfully.

**Liquidity**

The Company has experienced operating and net losses for fiscal 2021 and fiscal 2020 and has relied on periodic loans from related parties and capital contributions to assist in funding its ongoing capital needs. As of July 31, 2021, the Company has an accumulated deficit of \$4,772,908 and working capital deficit of \$6,475,030. The Company continues to execute on a plan to achieve profitability and generated positive cash flows from operations for fiscal 2021 and fiscal 2020. In addition, the Company's revenues increased in fiscal 2021 compared to fiscal 2020 while keeping operating expenses flat. As of July 31, 2021, the Company has \$735,041 of cash on hand and during the year ended July 31, 2021, the Company paid \$685,600 in capital distributions.

Based on the operating results of fiscal 2021 and management's plans to continue to increase revenues and generate positive cash flows from operations, the accompanying financial statements do not include any adjustments or classifications that may result from the possible inability of the Company to continue as a going concern. The accompanying financial statements have been prepared on a basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

**Subsequent Events**

For the purposes of preparing these financial statements, the Company considered events through December 23, 2021, the date these financial statements were available for issuance. The following subsequent events were identified for disclosure:

On October 11, 2021, the Company and T3 Communications, Inc. ("T3") entered into a non-binding letter of intent for a potential business combination between the companies (the "Letter of Intent"). Subject to the terms of the LOI, the total consideration for the combination is approximately \$20 million, consisting of \$14 million dollars of cash, \$2.5 million in the form of an unsecured note payable, and \$3.5 million of restricted stock. The merger consideration is subject to customary upward or downward adjustments for the Company's net working capital and closing cash. The Company pursued the business combination and engaged in, among other things, due diligence, the execution of a definitive agreement, approval from its Board of Directors/shareholders, and other customary conditions. Both parties are pursuing the consummation of the contemplated business combination.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events (Continued)**

On October 8, 2021, the Company executed the standard loan documents required for securing a loan (the "EIDL Loan") from the SBA under its Economic Injury Disaster Loan ("EIDL") assistance program in light of the impact of the COVID-19 pandemic on the Company's business. Pursuant to that certain Loan Authorization and Agreement (the "SBA Loan Agreement"), the principal amount of the EIDL Loan is up to \$200,000, with proceeds to be used for working capital purposes. Interest on the EIDL Loan accrues at the rate of 3.75% per annum and installment payments, including principal and interest, are due monthly beginning eighteen months from the date of the EIDL Loan in the amount of \$1,002. The balance of principal and interest is payable thirty years from the date of the promissory note. In connection with the EIDL Loan, the Company executed the EIDL Loan documents, which include the SBA Secured Disaster Loan Note, dated October 8, 2021, the Loan Authorization and Agreement, dated October 8, 2021, and the Security Agreement, dated October 8, 2021, each between the SBA and the Company.

**2. PROPERTY AND EQUIPMENT**

Property and equipment at July 31, 2021 and 2020 consists of the following:

|                                | <b>2021</b>  | <b>2020</b>  |
|--------------------------------|--------------|--------------|
| Customer premises equipment    | \$ 1,122,324 | \$ 716,699   |
| Leasehold improvements         | 343,642      | 343,642      |
| Network equipment              | 327,473      | 272,704      |
| Furniture and fixtures         | 191,664      | 191,664      |
| Software                       | 77,754       | 37,804       |
| Total cost                     | 2,062,857    | 1,562,513    |
| Less: accumulated depreciation | (728,439)    | (373,780)    |
| Property and equipment, net    | \$ 1,334,418 | \$ 1,188,733 |

Depreciation expense was \$376,378 and \$268,079 for the years ended July 31, 2021 and 2020, respectively.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**3. CAPITALIZED SOFTWARE**

Capitalized software as of July 31, 2021 consists of the following:

|                                | <b>2021</b>      |
|--------------------------------|------------------|
| Software development costs     | \$ 46,741        |
| Less: accumulated amortization | (15,580)         |
| Capitalized software, net      | <u>\$ 31,161</u> |

There was no capitalized software as of July 31, 2020. Amortization of software development costs totaled \$15,580 for the year ended July 31, 2021.

**4. ACCRUED EXPENSES**

The following is a summary of accrued expenses as of July 31, 2021 and 2020:

|                       | <b>2021</b>       | <b>2020</b>       |
|-----------------------|-------------------|-------------------|
| Accrued payroll       | \$ 266,842        | \$ 209,214        |
| Accrued vacation      | 266,806           | 223,693           |
| Accrued commissions   | 154,420           | 115,391           |
| Accrued circuit costs | 146,149           | 101,504           |
|                       | <u>\$ 834,217</u> | <u>\$ 649,802</u> |

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**5. PAYCHECK PROTECTION PROGRAM – LONG TERM**

On April 17, 2020, the Company received a loan in the amount of \$685,600 (“PPP Loan”) under the U.S. Small Business Administration’s Paycheck Protection Program (“PPP”) established under the Coronavirus Aid Relief and Economic Security Act (“CARES Act”) and related rules and regulations. The Company accounted for the PPP Loan as a financial liability in accordance with ASC Topic 470, *Debt*. The PPP Loan matures on 4/14/2022 and bears interest at a fixed rate of 1.00% per annum. Loan payments, which includes principal and interest, are deferred until 2/14/2023 which is 10 months after the loan forgiveness period.

Accordingly, the PPP Loan was recognized as long-term debt on the Company’s balance sheets. There is no prepayment penalty and under the terms of the PPP Loan, all or a portion of the principal may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. With respect to any portion of the PPP Loan that is not forgiven, the PPP Loan would be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the PPP Loan.

On January 20, 2021, the PPP Loan was forgiven in whole, which included principal of \$685,600 and accrued interest of \$0. The total amount forgiven of \$685,600 is recorded as a gain from extinguishment of debt in the accompanying statements of operations.

**6. EQUIPMENT FINANCING**

At July 31, 2021 and 2020, equipment financing consisted of the following:

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| Equipment loan 1, entered into in January 2019, includes total financed amount of \$107,750 payable in monthly installments of \$2,658 for 48 months. Interest at 8.54% per annum. The equipment loan was provided to purchase certain furniture and fixtures and is secured by the assets purchased. | \$ 42,427        | \$ 69,391        |
| Equipment loan 2, entered into in January 2019, includes total financed amount of \$56,226 payable in monthly installments of \$1,821 for 36 months. Interest at 10.25% per annum. The equipment loan was provided to purchase certain furniture and fixtures and is secured by the assets purchased. | 10,606           | 30,261           |
|   | <u>53,033</u>    | <u>99,652</u>    |
| Less: Current portion of equipment financing  | (41,559)         | (46,662)         |
| Long-term debt  | <u>\$ 11,474</u> | <u>\$ 52,990</u> |

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**6. EQUIPMENT FINANCING (Continued)**

The Company incurred interest expense related to the equipment loans in the amount of \$7,654 and \$11,189 for the years ended July 31, 2021 and 2020, respectively.

Equipment financing maturities are as follows:

**Year ending July 31,**

|      |    |               |
|------|----|---------------|
| 2022 | \$ | 41,559        |
| 2023 |    | 11,474        |
|      | \$ | <u>53,033</u> |

**7. RELATED PARTY TRANSACTIONS**

During the years ended July 31, 2021 and 2020, The Company entered into unsecured promissory notes with certain shareholders to provide the Company with liquidity. Interest rates for the related party unsecured promissory notes ranged from 5% to 15%. All outstanding balances at July 31, 2021 included interest rates of 5%. The outstanding principal balances are past due and included as current liabilities in the accompanying balance sheet. No default interest or late payment fees have been assessed during the years ended July 31, 2021 and 2020.

The Company incurred interest expense related to the related party promissory notes in the amount of \$29,260 and \$42,333 for the years ended July 31, 2021 and 2020, respectively, which have been included in interest expense on the statements of operations.

**8. REVENUES**

Revenue by major product offerings for the years ended July 31, 2021 and 2020 are as follows:

| <b>Major Product Offerings:</b> | <b>2021</b>          | <b>2020</b>          |
|---------------------------------|----------------------|----------------------|
| Broadband services              | \$ 6,220,657         | \$ 5,000,355         |
| Cloud hosted voice services     | 4,796,499            | 4,561,399            |
| Colocation services             | 485,574              | 457,785              |
| Other                           | 63,027               | 60,551               |
|                                 | <u>\$ 11,565,757</u> | <u>\$ 10,080,090</u> |

The Company's contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. As of July 31, 2021, and 2020, the deferred revenue balance was \$1,233,515 and \$1,003,082 respectively. The full amount of the deferred revenue balance as of July 31, 2021 is expected to be performed within 12 months and consist of consideration that is contractually due in advance of providing the product or performing the services.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**9. INCOME TAXES**

The Company, with stockholders' consent, has elected to be taxed as an S-Corporation under the provisions of the Internal Revenue Code and comparable state income tax law. As a result, the Company is not subject to Federal income taxes in the years ended July 31, 2021 and 2020. Consequently, the stockholders are liable for individual Federal and State income taxes on their proportionate shares of the Company's taxable income.

Accounting for Income Taxes, prescribes guidance regarding the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more-likely-than-not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. The Company records income tax related interest and penalties as a component of the provision for income tax expense.

The income tax position taken by the Company for the years 2018 through 2021 remaining open under the various statutes of limitations is that the Company continues to be exempt from income taxes by virtue of its being an S-Corporation pass-through entity. Management believes this tax position meets the more-likely-than-not threshold and, accordingly, the tax benefits of this income tax position (no Federal income tax expense or liability) has been recognized for the years ended on or before July 31, 2021.

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

**10. LEASES**

The Company leases a corporate office building under an operating lease through March 2026. Rent expense on the Company's operating leases for the years ended July 31, 2021 and 2020 was \$336,470. The Company leases equipment and vehicles under finance lease agreements through September 2022. The outstanding balance for finance leases as of July 31, 2021 and 2020 was \$17,226 and \$37,385, respectively. The Company recorded assets classified as property equipment under finance lease obligations of \$69,536 as of July 31, 2021 and 2020. Related accumulated depreciation totaled \$52,052 and \$32,477 as of July 31, 2021 and 2020, respectively. Because none of the Company's leases included an implicit rate of return, the Company's incremental secured borrowing rate was used based on lease term information available as of the lease commencement date in determining the present value of lease payments. The incremental borrowing rate on the leases is 5.0%.



**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**10. LEASES (Continued)**

The maturity of operating and finance lease liabilities as of July 31, 2021 are as follows:

| <b>Year ending July 31,</b>        | <b>Operating<br/>Leases</b> | <b>Finance<br/>Leases</b> |
|------------------------------------|-----------------------------|---------------------------|
| 2022                               | \$ 359,478                  | \$ 17,672                 |
| 2023                               | 369,229                     | -                         |
| 2024                               | 379,272                     | -                         |
| 2025                               | 389,617                     | -                         |
| 2026                               | 244,433                     | -                         |
| Total minimum lease payments       | 1,742,029                   | 17,672                    |
| Less: imputed interest             | (192,973)                   | (446)                     |
| Present value of lease liabilities | 1,549,056                   | 17,226                    |
| Less: current lease liabilities    | (288,524)                   | (17,226)                  |
| Long-term lease liabilities        | <u>\$ 1,260,532</u>         | <u>\$ -</u>               |

| <b>Lease term and discount rate</b>           | <b>July 31,<br/>2021</b> |
|---|--------------------------|
| Weighted-average remaining lease term (years) |                          |
| Operating leases                              | 4.7                      |
| Finance leases                                | 1.0                      |
| Weighted-average discount rate                |                          |
| Operating leases                              | 5.0%                     |
| Finance leases                                | 5.0%                     |

**11. COMMITMENTS AND CONTINGENCIES**

**Contingencies**

The Company acts as a collection agent for various government authorities, including but not limited to the Federal Communications Commissions (“FCC”), state authorities such as the California Public Utilities Commission (“PUC”), and other state and local taxes including the California Utility User Tax (“UUT”). The Company performed a review of the regulatory classification of its services and its federal and state regulatory and transactional tax obligations and determined the Company understated its remittances. At July 31, 2021 and 2020, the Company’s outstanding aggregate tax remittance liability, including penalties and interest, was \$4,275,334 and \$3,230,650, respectively, and is included as accrued taxes and penalties on the accompanying balance sheets.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**July 31, 2021 and 2020**

**11. COMMITMENTS AND CONTINGENCIES (Continued) Other Commitments**

In the normal course of business, the Company enters into contracts and agreements that may contain representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made in the future but have not yet been made. The Company has not paid any material settlement amounts related to indemnification obligations to date. In accordance with its bylaws and certain agreements, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such capacity. There have been no claims to date under these indemnification obligations. In addition, the Company is involved in litigation incidental to the conduct of its business. The Company is not a party to any other lawsuit or proceeding that, in the opinion of management, is probable to have a material adverse effect on its financial position, results of operations or cash flows.

**12. EMPLOYEE BENEFIT PLANS**

The Company sponsors a 401(k) plan for eligible employees. The Company matches 100% of the first 4% of eligible compensation that is deferred by employees. Employees are fully vested in matching contributions. Contributions to the plan totaled \$109,840 and \$120,151 for the years ended July 31, 2021 and 2020, respectively.

**13. EFFECTS OF COVID-19 PANDEMIC**

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19, including emerging variants, may impact the Company's financial condition or results of operations is uncertain.

In response to COVID-19, the Company put into place certain restrictions, requirements and guidelines to protect the health of its employees and customers. Also, to protect the health and safety of its employees, the Company's daily execution has evolved into a largely virtual model. The Company plans to continue to monitor the current environment and may take further actions that may be required by federal, state or local authorities or that it determines to be in the interest of its employees, customers, and partners.

**Next Level Internet, Inc.**

**Financial Statements**

**As of October 31, 2021 and July 31, 2021**

**and for the three months ended October 31, 2021 and 2020**

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Next Level Internet, Inc.

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors  
Next Level Internet, Inc.

We have reviewed the accompanying financial statements of Next Level Internet, Inc. (the "Company"), which comprise the balance sheet as of October 31, 2021, and the related statements of operations, changes in stockholders' deficit, 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 company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; 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 engagement 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 financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, 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 accounting principles generally accepted in the United States of America.

**Other Matter – Report on 2021 Financial Statements**

The July 31, 2021 balance sheet was audited by us, and we expressed an unmodified opinion on it in our report dated December 23, 2021. We have not performed any auditing procedures since that date.

**UHY** LLP

Melville, NY  
January 11, 2022

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**Next Level Internet, Inc.**  
**Balance Sheets**

|  | <b>October 31,<br/>2021<br/>(Unaudited)</b> | <b>July 31,<br/>2021</b> |
|--|---|--------------------------|
| <b>ASSETS</b>  |   |                          |
| <b>Current assets</b>  |   |                          |
| Cash   | \$ 758,162                                  | \$ 735,041               |
| Accounts receivables, net  | 559,014                                     | 611,466                  |
| Prepaid expenses and other current assets  | 524,935                                     | 493,008                  |
| Total current assets   | <u>1,842,111</u>                            | <u>1,839,515</u>         |
| Capitalized software, net  | 27,266                                      | 31,161                   |
| Property and equipment, net  | 1,299,163                                   | 1,334,418                |
| Other assets   | 386,365                                     | 403,831                  |
| Right of use asset, net  | 1,312,176                                   | 1,377,218                |
|  | <u>\$ 4,867,081</u>                         | <u>\$ 4,986,143</u>      |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |   |                          |
| <b>Current liabilities</b>   |   |                          |
| Accounts payable   | \$ 300,347                                  | \$ 284,538               |
| Accrued expenses   | 819,600                                     | 834,217                  |
| Accrued taxes and penalties  | 4,552,303                                   | 4,275,334                |
| Deferred revenue   | 1,269,907                                   | 1,233,515                |
| Customer deposits  | 827,800                                     | 784,032                  |
| Equipment financing, current   | 35,407                                      | 41,559                   |
| Notes payable, related parties   | 300,000                                     | 555,600                  |
| Finance leases, current  | 11,972                                      | 17,226                   |
| Operating lease liability, current   | 294,546                                     | 288,524                  |
| Total current liabilities  | <u>8,411,882</u>                            | <u>8,314,545</u>         |
| Equipment financing  | 5,273                                       | 11,474                   |
| Operating lease liability  | 1,185,309                                   | 1,260,532                |
| Economic injury disaster loan  | 200,000                                     | -                        |
|  | <u>9,802,464</u>                            | <u>9,586,551</u>         |
| <b>Stockholders' deficit</b>   |   |                          |
| Common stock; \$1 par value, 1,500 shares authorized and 1,500 shares issued and outstanding at October 31, 2021 and July 31, 2021, respectively | 1,500                                       | 1,500                    |
| Additional paid-in capital   | 171,000                                     | 171,000                  |
| Accumulated deficit  | (5,107,883)                                 | (4,772,908)              |
| Total stockholders' deficit  | <u>(4,935,383)</u>                          | <u>(4,600,408)</u>       |
|  | <u>\$ 4,867,081</u>                         | <u>\$ 4,986,143</u>      |

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

**Next Level Internet, Inc.**  
**Statements of Operations**  
(Unaudited)

|  | <b>Three Months Ended</b> |                     |
|--|---------------------------|---------------------|
|  | <b>October 31,</b>        |                     |
|  | <b>2021</b>               | <b>2020</b>         |
| Revenues   | \$ 3,253,088              | \$ 2,637,632        |
| Costs and expenses   |                           |                     |
| Costs of revenues (exclusive of depreciation and amortization) | 1,377,143                 | 999,499             |
| Operating expenses   | 2,086,289                 | 1,652,364           |
| Depreciation and amortization                                  | 113,716                   | 86,718              |
| Total costs and expenses                                       | <u>3,577,148</u>          | <u>2,738,581</u>    |
| Operating loss   | (324,060)                 | (100,949)           |
| Other expense:   |                           |                     |
| Interest expense   | 9,887                     | 5,935               |
| Other expense  | 1,028                     | 1,117               |
| Total other expense  | <u>10,915</u>             | <u>7,052</u>        |
| Net loss   | <u>\$ (334,975)</u>       | <u>\$ (108,001)</u> |

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

**Next Level Internet, Inc.**  
**Statements of Changes in Stockholders' Deficit**  
**(Unaudited)**  
**For the Three Months Ended October 31, 2021 and 2020**

|   | <u>Common Stock</u> |                 | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Total</u>          |
|---|---------------------|-----------------|---|--------------------------------|-----------------------|
|   | <u>Shares</u>       | <u>Value</u>    |   |                                |                       |
| Balance at August 1, 2020               | 1,500               | \$1,500         | \$41,000                                  | \$(3,615,118)                  | \$(3,572,618)         |
| Net loss                                | -                   | -               | -   | (108,001)                      | (108,001)             |
| Balance at October 31, 2020 (unaudited) | <u>1,500</u>        | <u>\$ 1,500</u> | <u>\$ 41,000</u>                          | <u>\$ (3,723,119)</u>          | <u>\$ (3,680,619)</u> |
| Balance at August 1, 2021               | 1,500               | \$ 1,500        | \$ 171,000                                | \$ (4,772,908)                 | \$ (4,600,408)        |
| Net loss                                | -                   | -               | -   | (334,975)                      | (334,975)             |
| Balance at October 31, 2021 (unaudited) | <u>1,500</u>        | <u>\$ 1,500</u> | <u>\$ 171,000</u>                         | <u>\$ (5,107,883)</u>          | <u>\$ (4,935,383)</u> |

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



**Next Level Internet, Inc.**  
**Statements of Cash Flows**  
(Unaudited)

|   | <b>Three Months Ended</b> |                     |
|---|---------------------------|---------------------|
|   | <b>October 31,</b>        |                     |
|   | <b>2021</b>               | <b>2020</b>         |
| <b>Cash flows from operating activities</b>                                     |                           |                     |
| Net loss  | \$ (334,975)              | \$ (108,001)        |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                           |                     |
| Depreciation and amortization   | 113,716                   | 86,718              |
| Amortization of ROU asset - operating   | 65,042                    | 61,703              |
| Bad debt expense  | 9,712                     | (18,566)            |
| Changes in operating assets and liabilities:                                    |                           |                     |
| Accounts receivable   | 42,740                    | (16,082)            |
| Prepaid expenses and other current assets                                       | (31,927)                  | (45,974)            |
| Other assets  | 17,466                    | 20,204              |
| Accounts payable  | 15,809                    | 63,819              |
| Accrued expenses  | (14,617)                  | 19,540              |
| Accrued taxes and penalties   | 276,969                   | 243,837             |
| Deferred revenue  | 36,392                    | 21,104              |
| Customer deposits   | 43,768                    | 8,526               |
| Operating lease liability   | (69,201)                  | (63,542)            |
| Net cash provided by operating activities                                       | <u>170,894</u>            | <u>273,286</u>      |
| <b>Cash flows from investing activities</b>                                     |                           |                     |
| Capitalization of software development costs                                    | -                         | (46,741)            |
| Purchase of property and equipment  | (74,566)                  | (102,986)           |
| Net cash used in investing activities   | <u>(74,566)</u>           | <u>(149,727)</u>    |
| <b>Cash flows from financing activities</b>                                     |                           |                     |
| Repayments of equipment financing   | (12,353)                  | (11,281)            |
| Repayments of notes payable, related parties                                    | (255,600)                 | (200,000)           |
| Proceeds from economic injury disaster loan                                     | 200,000                   | -                   |
| Repayments on finance leases  | (5,254)                   | (4,870)             |
| Net cash used in financing activities   | <u>(73,207)</u>           | <u>(216,151)</u>    |
| Net increase (decrease) in cash   | 23,121                    | (92,592)            |
| Cash, at beginning of period  | <u>735,041</u>            | <u>1,215,122</u>    |
| Cash, at end of period  | <u>\$ 758,162</u>         | <u>\$ 1,122,530</u> |
| <b>Supplemental information:</b>  |                           |                     |
| Interest expense paid in cash   | <u>\$ 7,572</u>           | <u>\$ 5,935</u>     |

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

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020 (Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Next Level Internet, Inc. (the “Company”) is a leading provider of cloud-based Unified Communications as a Service (“UCaaS”) solutions, contact center, and managed connectivity services. The Company has a high-capacity network with nationwide reach and has nearly 1,000 customers across a diverse set of high-value sectors; target multi-location small and medium sized businesses and mid-market customers primarily through regionally focused channel partners.

On October 11, 2021, the Company and T3 Communications, Inc. (“T3”) entered into a non-binding letter of intent for a potential business combination between the companies (the “Letter of Intent”). Subject to the terms of the LOI, T3 will acquire 100% of the Company for a total of \$20 million, consisting of \$14 million of cash, \$2.5 million in the form of an unsecured note payable, and \$3.5 million of restricted stock. The merger consideration is subject to customary upward or downward adjustments for the Company’s net working capital and closing cash. On January 3, 2022, the Company and T3 executed an amendment to the non-binding letter of intent to extend the exclusivity period to January 21, 2022 and amend the purchase price to \$17.3 million, consisting of \$13.3 million in cash, \$2 million in the form of an unsecured convertible promissory notes, and \$2 million in the form of unsecured adjustable promissory notes.

**Basis of Presentation**

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information (Accounting Standards Codification (“ASC”) 270, *Interim Reporting*). Accordingly, these statements should be read in conjunction with the Company’s audited financial statements as of and for the year ended July 31, 2021.

In the opinion of the management, the accompanying unaudited financial statements reflect all normal recurring adjustments, which are necessary for a fair presentation of financial results for the interim periods presented. The Company believes that the disclosures are adequate to make the information presented not misleading. The Company’s unaudited financial statements have been prepared using the same accounting policies as used in the preparation of the Company’s financial statements as of and for the year ended July 31, 2021. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year.

The financial information as of July 31, 2021 presented in the unaudited financial statements is derived from the audited financial statements as of and for the year ended July 31, 2021.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. As of October 31, 2021 and 2020, there were no cash equivalents.

**Fair Value of Financial Instruments**

The Company applies fair value accounting for all financial assets and liabilities and non- financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
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**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value of Financial Instruments (Continued)**

The estimated fair value of financial instruments is determined by the Company using available market information and valuation methodologies considered to be appropriate. At October 31, 2021, the carrying value of the Company's accounts receivable, accounts payable, and accrued expenses approximated their fair values due to their short-term maturities.

**Accounts Receivable**

Accounts receivable consists of outstanding amounts due from the sale of products and services. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable are written off when they are determined to be uncollectible. The Company believes that an allowance for doubtful accounts of \$48,718 and \$27,660 at October 31, 2021 and July 31, 2021, respectively, is adequate based on historical experience. Credit losses, when realized, have been within the range of the Company's expectations.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets per the table below:

|                             |   |
|-----------------------------|---|
| Customer premises equipment | 5 years                                       |
| Furniture and fixtures      | 7 years                                       |
| Leasehold improvements      | Shorter of useful life of asset or lease term |
| Software                    | 3 years                                       |
| Network equipment           | 5 years                                       |

**Revenue Recognition**

The Company accounts for revenues under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("Topic 606"). The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized utilizing the five-step process as prescribed by Topic 606:

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
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**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition (Continued)**

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and represents the unit of account in applying the revenue recognition guidance provided by Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's performance obligations are satisfied over time as services are rendered or at a point in time depending on when the customer obtains control of the promised goods or services. Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs when services are rendered.

Revenues include revenues received from the sale of integrated cloud solutions and business services and is comprised of monthly recurring revenue ("MRRs"), usage charges, and professional services for configuration. MRRs include the fees paid by customers for services and are recognized over the period that the corresponding services are rendered to the customers. Usage and access charges are recognized monthly as services are provided. Professional services are primarily billed on a fixed-fee basis and revenue is recognized over time, generally as services are activated for the customer.

**Deferred Revenue**

Deferred revenue represents amounts billed to or collected from customers for which the related revenue has not been recognized because one or more of the performance obligations have not been met. The current portion of deferred revenue is expected to be recognized as revenue within 12 months from the balance sheet date.

**Costs to Obtain a Customer Contact**

Direct incremental costs of obtaining a contract, consisting of sales commissions, are deferred and amortized over the estimated life of the customer, which is currently 36 months. The Company calculates the estimated life of the customer on an annual basis. The Company classifies deferred commissions as prepaid expenses or other noncurrent assets based on the timing of when it expects to recognize the expense.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Customer Deposits**

The Company in some instances requires customers to make a last month deposit to be applied to outstanding balances if services are cancelled. If the customer's account is paid in full, the Company will refund the full deposit in the month following service termination.

**Costs of Revenues**

Costs of revenues include bandwidth, colocation, infrastructure and install charges in connection with the Company's UCaaS or cloud communication services. The bandwidth charges are incurred as part of the connectivity between the Company's customers to allow them to access various services. The Company also incurs costs from underlying providers for fiber, internet broadband, and telecommunication circuits in connection with the Company's data and connectivity solutions. Install costs include the installation of necessary equipment and professional services they may be incurred for engineering. All remaining charges are classified as infrastructure costs.

**Capitalized Software**

The Company complies with the guidance of ASC Topic 350-40, "Intangibles—Goodwill and Other—Internal Use Software", in accounting for of its internally developed system projects that it utilizes to provide its services to customers. These system projects generally relate to software of the Company that is not intended for sale or otherwise marketed. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Once a project has reached the development stage, the Company capitalizes direct internal and external costs until the software is substantially complete and ready for its intended use. Costs for upgrades and enhancements are capitalized, whereas, costs incurred for maintenance are expensed as incurred. These capitalized software costs are amortized on a project-by project basis over the expected economic life of the underlying software on a straight-line basis, which is generally three years. Amortization commences when the software is available for its intended use.

**Impairment of Long-Lived Assets**

The Company reviews long lived assets, including property and equipment, capitalized software, and right of use assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Recoverability measurement and estimating of undiscounted cash flows for assets to be held and used is done at the lowest possible levels for which there are identifiable cash flows.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment of Long-Lived Assets (Continued)**

If the projected undiscounted cash flows are less than the carrying value, the amount of impairment, if any, recognized would be equal to the amount by which the carrying amount of the assets exceeds the fair value of the assets, which the Company would compute using a discounted cash flow approach. Assets to be disposed of are recorded at the lower of the carrying amount or fair value less costs to sell.

**Concentration of Credit Risk**

The Company maintains its cash in bank deposit accounts that are insured by the FDIC up to \$250,000. As of October 31, 2021 and July 31, 2021, the Company had \$340,135 and \$277,186, respectively, of uninsured cash balances. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Leases**

The Company's leases are accounted for under Financial Accounting Standards Board ("FASB") ASC Topic 842, *Leases* ("Topic 842"). At inception of the arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present and whether the lease meets the classification criteria of a finance or operating lease. For operating leases with terms greater than 12 months, the Company records a right-of-use ("ROU") asset and lease obligation at the present value of lease payments over the term using the implicit interest rate, when readily available, or its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Options to extend or terminate a lease are included in the calculation for the lease term to the extent the option is reasonably certain of exercise. The Company does not recognize ROU assets and lease liabilities for leases with terms at inception of twelve months or less. The Company recognizes the lease expense for operating leases on a straight-line basis in the statement of operations over the lease term.

Finance leases are included in property and equipment and equipment financing on the balance sheets. Finance leases are recorded as an asset and an obligation at an amount equal to the present value of the minimum lease payments during the lease term. Amortization and interest expense associated with finance leases are included in operating expenses and interest expense, respectively, on the statements of operations.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**1. NATURE OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

The Company has elected under the Internal Revenue Code and related state provisions to be an S-Corporation. In lieu of corporate income taxes, the stockholders of an S-Corporation are taxed at their proportionate share of the Company's taxable income. Therefore, no provision or liability for Federal income taxes has been included in the financial statements.

**Advertising**

The Company expenses advertising costs as they are incurred. Advertising expense was \$33,645 and \$8,592 for the three months ended October 31, 2021 and 2020, respectfully.

**Liquidity**

The Company has experienced operating and net losses for the three month periods ended October 31, 2021 and 2020 and has relied on periodic loans from related parties and capital contributions to assist in funding its ongoing capital needs. As of October 31, 2021, the Company has an accumulated deficit of \$5,120,038 and working capital deficit of \$6,581,926. The Company continues to execute on a plan to achieve profitability and generated positive cash flows from operations for the three month periods ended October 31, 2021 and 2020. In addition, the Company's revenues increased in the three months ended October 31, 2021 compared to the three months ended October 31, 2020 and the Company secured an Economic Injury Disaster Loan in the amount of \$200,000 in October 2021 (see Note 5). As of October 31, 2021, the Company has \$758,162 of cash on hand.

Based on the operating results of the three months ended October 31, 2021 and management's plans to continue to increase revenues and generate positive cash flows from operations, the accompanying financial statements do not include any adjustments or classifications that may result from the possible inability of the Company to continue as a going concern. The accompanying financial statements have been prepared on a basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

**Subsequent Events**

For the purposes of preparing these financial statements, the Company considered events through January 11, 2021, the date these financial statements were available for issuance.



**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**2. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at:

|                                | <b>October 31,<br/>2021</b> | <b>July 31,<br/>2021</b> |
|--------------------------------|-----------------------------|--------------------------|
| Customer premises equipment    | \$ 1,196,890                | \$ 1,122,324             |
| Leasehold improvements         | 343,642                     | 343,642                  |
| Network equipment              | 327,473                     | 327,473                  |
| Furniture and fixtures         | 191,664                     | 191,664                  |
| Software                       | 77,754                      | 77,754                   |
| Total cost                     | <u>2,137,423</u>            | <u>2,062,857</u>         |
| Less: accumulated depreciation | <u>(838,260)</u>            | <u>(728,439)</u>         |
| Property and equipment, net    | <u>\$ 1,299,163</u>         | <u>\$ 1,334,418</u>      |

Depreciation expense was \$109,821 and \$85,420 for the three months ended October 31, 2021 and 2020, respectively.

**3. CAPITALIZED SOFTWARE**

Capitalized software consist of the following at:

|                                | <b>October 31,<br/>2021</b> | <b>July 31,<br/>2021</b> |
|--------------------------------|-----------------------------|--------------------------|
| Software development costs     | \$ 46,741                   | \$ 46,741                |
| Less: accumulated amortization | <u>(19,475)</u>             | <u>(15,580)</u>          |
| Capitalized software, net      | <u>\$ 27,266</u>            | <u>\$ 31,161</u>         |

Amortization of software development costs totaled \$3,895 and \$1,298 for the three months ended October 31, 2021 and 2020, respectively.

**4. ACCRUED EXPENSES**

Accrued expenses consisted of the following at:

|                       | <b>October 31,<br/>2021</b> | <b>July 31,<br/>2021</b> |
|-----------------------|-----------------------------|--------------------------|
| Accrued payroll       | \$ 255,152                  | \$ 266,842               |
| Accrued vacation      | 264,412                     | 266,806                  |
| Accrued commissions   | 144,659                     | 154,420                  |
| Accrued circuit costs | 155,377                     | 146,149                  |
|                       | <u>\$ 819,600</u>           | <u>\$ 834,217</u>        |

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020 (Unaudited)**

**5. ECONOMIC INJURY DISASTER LOAN**

On October 8, 2021, the Company executed the standard loan documents required for securing a loan (the “EIDL Loan”) from the SBA under its Economic Injury Disaster Loan (“EIDL”) assistance program in light of the impact of the COVID-19 pandemic on the Company’s business. Pursuant to that certain Loan Authorization and Agreement (the “SBA Loan Agreement”), the principal amount of the EIDL Loan is up to \$200,000, with proceeds to be used for working capital purposes. Interest on the EIDL Loan accrues at the rate of 3.75% per annum and installment payments, including principal and interest, are due monthly beginning eighteen months from the date of the EIDL Loan in the amount of \$1,002. All payments will first be applied to interest accrued to the date of receipt of each payment, and the balance, if any, will be applied to the principal. The balance of principal and interest is payable thirty years from the date of the promissory note. As the Company will not make payments against principal until 2023, the entire balance was classified as a long-term liability in the accompanying balance sheet.

At October 31, 2021, the EIDL matures as follows:

|                      |                   |
|----------------------|-------------------|
| Year ending July 31, |                   |
| 2026                 | \$ 4,212          |
| Thereafter           | 195,788           |
|                      | <u>\$ 200,000</u> |

**6. RELATED PARTY TRANSACTIONS**

The Company entered into various unsecured promissory notes with certain shareholders to provide the Company with liquidity. Interest rates for the related party unsecured promissory notes ranged from 5% to 15%. All outstanding balances at October 31, 2021 included interest rates of 5%. The outstanding principal balances are past due and included as current liabilities in the accompanying balance sheet. No default interest or late payment fees have been assessed during the three months ended October 31, 2021 and 2020.

The Company incurred interest expense related to the related party promissory notes in the amount of \$8,612 and \$3,333 for the three months ended October 31, 2021 and 2020, respectively, which have been included in interest expense on the statements of operations.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**7. EQUIPMENT FINANCING**

Equipment financing consisted of the following:

|   | <b>October 31,<br/>2021</b> | <b>July 31,<br/>2021</b> |
|---|-----------------------------|--------------------------|
| Equipment loan 1, entered into in January 2019, includes total financed amount of \$107,750 payable in monthly installments of \$2,658 for 48 months. Interest at 8.54% per annum. The equipment loan was provided to purchase certain furniture and fixtures and is secured by the assets purchased. | \$ 36,956                   | \$ 42,427                |
| Equipment loan 2, entered into in January 2019, includes total financed amount of \$56,226 payable in monthly installments of \$1,821 for 36 months. Interest at 10.25% per annum. The equipment loan was provided to purchase certain furniture and fixtures and is secured by the assets purchased. | 3,724                       | 10,606                   |
|   | <u>40,680</u>               | <u>53,033</u>            |
| Less: Current portion of equipment financing  | (35,407)                    | (41,559)                 |
| Long-term debt  | <u>\$ 5,273</u>             | <u>\$ 11,474</u>         |

The Company incurred interest expense related to the equipment loans in the amount of \$1,082 and \$2,154 for the three months ended October 31, 2021 and 2020, respectively.

Equipment financing maturities are as follows:

|                      |                  |
|----------------------|------------------|
| Year ending July 31, |                  |
| 2022 (9 months)      | \$ 27,671        |
| 2023                 | 13,009           |
|                      | <u>\$ 40,680</u> |

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**8. REVENUES**

Revenue by major product offerings for the three months ended October 31, 2021 and 2020 are as follows:

| <b>Major Product Offerings:</b> | <b>2021</b>         | <b>2020</b>         |
|---------------------------------|---------------------|---------------------|
| Broadband services              | \$ 1,803,539        | \$ 1,366,731        |
| Cloud hosted voice services     | 1,315,162           | 1,141,231           |
| Colocation services             | 127,800             | 115,873             |
| Other                           | 6,587               | 13,797              |
|                                 | <u>\$ 3,253,088</u> | <u>\$ 2,637,632</u> |

The Company's contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. As of October 31, 2021 and July 31, 2021, the deferred revenue balance was \$1,269,907 and \$1,233,515 respectively. The full amount of the deferred revenue balance as of October 31, 2021 is expected to be performed within 12 months and consist of consideration that is contractually due in advance of providing the product or performing the services.

**9. INCOME TAXES**

The Company, with stockholders' consent, has elected to be taxed as an S-Corporation under the provisions of the Internal Revenue Code and comparable state income tax law. As a result, the Company is not subject to Federal income taxes in the three months ended October 31, 2021 and 2020. Consequently, the stockholders are liable for individual Federal and State income taxes on their proportionate shares of the Company's taxable income.

Accounting for Income Taxes, prescribes guidance regarding the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more-likely-than-not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. The Company records income tax related interest and penalties as a component of the provision for income tax expense.

The income tax position taken by the Company for the years 2018 through 2021 remaining open under the various statutes of limitations is that the Company continues to be exempt from income taxes by virtue of its being an S-Corporation pass-through entity. Management believes this tax position meets the more-likely-than-not threshold and, accordingly, the tax benefits of this income tax position (no Federal income tax expense or liability) has been recognized for the period ended on or before October 31, 2021.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**9. INCOME TAXES (Continued)**

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

**10. LEASES**

The Company leases a corporate office building under an operating lease through March 2026. Rent expense on the Company's operating leases for the three months ended October 31, 2021 and 2020 was \$84,117. The Company leases equipment and vehicles under finance lease agreements through September 2022. The outstanding balance for finance leases as of October 31, 2021 and July 31, 2021 was \$11,972 and \$17,226, respectively. The Company recorded assets classified as property equipment under finance lease obligations of \$69,536 as of October 31, 2021 and July 31, 2021. Related accumulated depreciation totaled \$56,911 and \$52,052 as of October 31, 2021 and July 31, 2021, respectively. Because none of the Company's leases included an implicit rate of return, the Company's incremental secured borrowing rate was used based on lease term information available as of the lease commencement date in determining the present value of lease payments. The incremental borrowing rate on the leases is 5.0%.

The maturity of operating and finance lease liabilities as of October 31, 2021 are as follows:

| <b>Year ending July 31,</b>        | <b>Operating<br/>Leases</b> | <b>Finance<br/>Leases</b> |
|------------------------------------|-----------------------------|---------------------------|
| 2022 (9 months)                    | \$ 271,202                  | \$ 12,224                 |
| 2023                               | 369,229                     | -                         |
| 2024                               | 379,272                     | -                         |
| 2025                               | 389,617                     | -                         |
| 2026                               | 244,433                     | -                         |
| Total minimum lease payments       | 1,653,753                   | 12,224                    |
| Less: imputed interest             | (173,898)                   | (252)                     |
| Present value of lease liabilities | 1,479,855                   | 11,972                    |
| Less: current lease liabilities    | (294,546)                   | (11,972)                  |
| Long-term lease liabilities        | <u>\$ 1,185,309</u>         | <u>\$ -</u>               |

| <b>Lease term and discount rate</b>           | <b>October 31,<br/>2021</b> |
|---|-----------------------------|
| Weighted-average remaining lease term (years) |                             |
| Operating leases                              | 4.4                         |
| Finance leases                                | 0.8                         |
| Weighted-average discount rate                |                             |
| Operating leases                              | 5.0%                        |
| Finance leases                                | 5.0%                        |

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020**  
**(Unaudited)**

**11. COMMITMENTS AND CONTINGENCIES**

**Contingencies**

The Company acts as a collection agent for various government authorities, including but not limited to the Federal Communications Commissions (“FCC”), state authorities such as the California Public Utilities Commission (“PUC”), and other state and local taxes including the California Utility User Tax (“UUT”). The Company performed a review of the regulatory classification of its services and its federal and state regulatory and transactional tax obligations and determined the Company understated its remittances. At October 31, 2021 and July 31, 2021, the Company’s outstanding aggregate tax remittance liability, including penalties and interest, was \$4,552,303 and \$4,275,334, respectively, and is included as accrued taxes and penalties on the accompanying balance sheets.

**Other Commitments**

In the normal course of business, the Company enters into contracts and agreements that may contain representations and warranties and provide for general indemnifications. The Company’s exposure under these agreements is unknown because it involves claims that may be made in the future but have not yet been made. The Company has not paid any material settlement amounts related to indemnification obligations to date. In accordance with its bylaws and certain agreements, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company’s request in such capacity. There have been no claims to date under these indemnification obligations. In addition, the Company is involved in litigation incidental to the conduct of its business. The Company is not a party to any other lawsuit or proceeding that, in the opinion of management, is probable to have a material adverse effect on its financial position, results of operations or cash flows.

**12. EMPLOYEE BENEFIT PLANS**

The Company sponsors a 401(k) plan for eligible employees. The Company matches 100% of the first 4% of eligible compensation that is deferred by employees. Employees are fully vested in matching contributions. Contributions to the plan totaled \$28,196 and \$26,452 for the three months ended October 31, 2021 and 2020, respectively.

**Next Level Internet, Inc.**  
**Notes to Financial Statements**  
**For the Three Months Ended October 31, 2021 and 2020 (Unaudited)**

**13. EFFECTS OF COVID-19 PANDEMIC**

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19, including emerging variants, may impact the Company’s financial condition or results of operations is uncertain.

In response to COVID-19, the Company put into place certain restrictions, requirements and guidelines to protect the health of its employees and customers. Also, to protect the health and safety of its employees, the Company’s daily execution has evolved into a largely virtual model. The Company plans to continue to monitor the current environment and may take further actions that may be required by federal, state or local authorities or that it determines to be in the interest of its employees, customers, and partners.

**DIGERATI TECHNOLOGIES, INC. AND NEXT LEVEL INTERNET, INC.****Unaudited Pro Forma Consolidated Balance Sheet  
and  
Unaudited Pro Forma Consolidated Statements of Operations**

On February 4, 2022, our indirect, wholly owned subsidiary, T3 Communications, Inc., a Nevada corporation (“T3 Nevada”, “T3”), executed and closed on a Equity Purchase Agreement (the “Equity Purchase Agreement”) with Next Level Internet, Inc., a California Corporation (“NLI”, “Next Level”, “Next Level Internet”, “Seller”).

Pursuant to the Stock Purchase Agreement, T3 acquired the customer base, 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 Internet Protocol Private Branch Exchange (“IP-PBX”) based systems of telephony.

The total purchase price is up to \$12.90 million consisting of: (i) \$8.9 million in cash which includes payoff of certain indebtedness held at closing by Next Level and certain transaction expenses; (ii) unsecured promissory notes in the aggregate principal amount of \$2 million issued by T3 to the Sellers (the “Unsecured Notes”) with such notes payable in eight equal quarterly installments in the aggregate amount of \$250,000.00 each starting on June 4, 2022 through and including March 7, 2024. The amount owed is subject to change based on certain revenue milestones needing to be met by Next Level; and (iii) unsecured convertible promissory notes (the “Convertible Notes”) in the aggregate principal amount of \$2 million issued by T3 to the Sellers with such notes payable in eight equal quarterly installments in the aggregate amount of \$250,000.00 each starting on April 30, 2022 through and including January 31, 2024. The Sellers have a onetime right to convert all or a portion of the Convertible Notes commencing on the six-month anniversary of the notes being issued and ending 30 days after such six-month anniversary. The conversion price is the volume weighted average price per share for the ten (10) consecutive trading days immediately preceding the date on which a conversion notice is received by T3.

T3 paid \$8.9 million in cash to the Sellers on the closing date of February 4, 2022.

In addition, 120 days after the closing of the transaction, T3 will pay the Sellers the amount by which net working capital deficit is better than \$2.16 million or the Sellers will pay T3 the amount by which net working capital deficit is worse than \$2.36 million.

The unaudited pro forma condensed consolidated 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 Next Level Internet acquisition. The Next Level Internet 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 Next Level Internet has been derived from the unaudited financial statements of the Seller 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 February 11, 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.

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The historical financial information of Next Level Internet has been derived from the audited financial statements of the Seller 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 February 11, 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 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 Next Level Internet have been reclassified or combined to conform to presentation and the disclosure requirements of the combined company.

**DIGERATI TECHNOLOGIES, INC. AND NEXT LEVEL INTERNET, INC.**  
**Unaudited Pro Forma Consolidated Balance Sheet**  
(In thousands)  
As of October 31, 2021

|  | <u>Historical (unaudited)</u> |                                | <u>Pro Forma<br/>Adjustments</u> | <u>Note 3</u> | <u>Pro Forma<br/>Consolidated</u> |
|--|-------------------------------|--------------------------------|----------------------------------|---------------|-----------------------------------|
|  | <u>Digerati</u>               | <u>Next Level<br/>Internet</u> |                                  |               |                                   |
| <b>ASSETS</b>  |                               |                                |                                  |               |                                   |
| <b>CURRENT ASSETS:</b>   |                               |                                |                                  |               |                                   |
| Cash and cash equivalents  | \$ 1,646                      | \$ 758                         | \$ (502)                         | (a)           | \$ 1,902                          |
| Accounts receivable, net   | 471                           | 559                            | -                                |               | 1,030                             |
| Prepaid and other current assets   | 218                           | 525                            | -                                |               | 743                               |
| Total current assets   | <u>2,335</u>                  | <u>1,842</u>                   | <u>(502)</u>                     |               | <u>3,675</u>                      |
| <b>LONG-TERM ASSETS:</b>   |                               |                                |                                  |               |                                   |
| Intangible assets, net   | 8,093                         | -                              | 14,270                           | (b)           | 22,363                            |
| Goodwill, net  | 3,931                         | -                              | 3,567                            | (c)           | 7,498                             |
| Property and equipment, net  | 499                           | 1,299                          | -                                |               | 1,798                             |
| Other assets   | 79                            | 414                            | -                                |               | 493                               |
| Investment in Itellum  | 185                           | -                              | -                                |               | 185                               |
| Right-of-use asset   | 822                           | 1,312                          | -                                |               | 2,134                             |
| Total assets   | <u>\$ 15,944</u>              | <u>\$ 4,867</u>                | <u>\$ 17,335</u>                 |               | <u>\$ 38,146</u>                  |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                               |                                |                                  |               |                                   |
| <b>CURRENT LIABILITIES:</b>  |                               |                                |                                  |               |                                   |
| Accounts payable   | \$ 1,937                      | \$ 300                         | -                                |               | \$ 2,237                          |
| Accrued liabilities  | 2,703                         | 5,372                          | -                                |               | 8,075                             |
| Equipment financing  | 28                            | 47                             | -                                |               | 75                                |
| Convertible note payable, current, net \$212   | 1,477                         | -                              | 1,000                            | (a)           | 2,477                             |
| Note payable, current, net \$286   | 3,438                         | -                              | 1,000                            | (a)           | 4,438                             |
| Note payable, current, related party, net \$0  | 1,000                         | 300                            | (300)                            | (d)           | 1,000                             |
| Deferred income  | 3                             | 2,098                          | -                                |               | 2,101                             |
| Derivative liability   | 12,340                        | -                              | -                                |               | 12,340                            |
| Operating lease liability, current   | 478                           | 295                            | -                                |               | 773                               |
| Total current liabilities  | <u>23,404</u>                 | <u>8,412</u>                   | <u>1,700</u>                     |               | <u>33,516</u>                     |
| <b>LONG-TERM LIABILITIES:</b>  |                               |                                |                                  |               |                                   |
| Convertible note payable   | -                             | -                              | 1,000                            | (a)           | 1,000                             |
| Notes payable  | -                             | -                              | 1,000                            | (a)           | 1,000                             |
| Note payable, net \$4,293  | 6,727                         | -                              | 8,900                            | (e)           | 15,627                            |
| Note payable   | -                             | 200                            | (200)                            | (d)           | -                                 |
| Equipment financing  | -                             | 5                              | -                                |               | 5                                 |
| Operating lease liability  | 344                           | 1,185                          | -                                |               | 1,529                             |
| Total long-term liabilities  | <u>7,071</u>                  | <u>1,390</u>                   | <u>10,700</u>                    |               | <u>19,161</u>                     |
| Total liabilities  | <u>30,475</u>                 | <u>9,802</u>                   | <u>12,400</u>                    |               | <u>52,677</u>                     |
| <b>Commitments and contingencies</b>   |                               |                                |                                  |               |                                   |
| <b>STOCKHOLDERS' DEFICIT:</b>  |                               |                                |                                  |               |                                   |
| 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           | 173             | (173)            | (f) | 89,157           |
| (Accumulated deficit) Retained earnings       | (102,956)        | (5,108)         | 5,108            | (f) | (102,956)        |
| Other comprehensive income                    | 1                | -               | -                |     | 1                |
| <b>Total Digerati's stockholders' deficit</b> | <b>(13,659)</b>  | <b>(4,935)</b>  | <b>4,935</b>     |     | <b>(13,659)</b>  |
| Noncontrolling interest                       | (872)            | -               | -                |     | (872)            |
| <b>Total stockholders' deficit</b>            | <b>(14,531)</b>  | <b>(4,935)</b>  | <b>4,935</b>     |     | <b>(14,531)</b>  |
| Total liabilities and stockholders' deficit   | <u>\$ 15,944</u> | <u>\$ 4,867</u> | <u>\$ 17,335</u> |     | <u>\$ 38,146</u> |

*See accompanying notes to unaudited pro forma consolidated financial statements*

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

|   | <u>Historical (unaudited)</u> |                                | <u>Pro Forma<br/>Adjustments</u> | <u>Note 3</u> | <u>Pro Forma<br/>Consolidated</u> |
|---|-------------------------------|--------------------------------|----------------------------------|---------------|-----------------------------------|
|   | <u>Digerati</u>               | <u>Next Level<br/>Internet</u> |                                  |               |                                   |
| <b>OPERATING REVENUES:</b>  |                               |                                |                                  |               |                                   |
| Cloud software and service revenue  | \$ 3,777                      | \$ 3,253                       | \$ -                             |               | \$ 7,030                          |
| Total operating revenues  | <u>3,777</u>                  | <u>3,253</u>                   | <u>-</u>                         |               | <u>7,030</u>                      |
| <b>OPERATING EXPENSES:</b>  |                               |                                |                                  |               |                                   |
| Cost of services (exclusive of depreciation and amortization)               | 1,490                         | 1,377                          | -                                |               | 2,867                             |
| Selling, general and administrative expense                                 | 1,788                         | 2,086                          | -                                |               | 3,874                             |
| Legal and professional fees   | 574                           | -                              | -                                |               | 574                               |
| Bad debt  | 13                            | -                              | -                                |               | 13                                |
| Depreciation and amortization expense                                       | 492                           | 114                            | 636                              | (g)           | 1,242                             |
| Total operating expenses  | <u>4,357</u>                  | <u>3,577</u>                   | <u>636</u>                       |               | <u>8,570</u>                      |
| <b>OPERATING INCOME (LOSS)</b>  | <u>(580)</u>                  | <u>(324)</u>                   | <u>(636)</u>                     |               | <u>(1,540)</u>                    |
| <b>OTHER INCOME (EXPENSE):</b>  |                               |                                |                                  |               |                                   |
| Gain (loss) on derivative instruments                                       | 4,433                         | -                              | -                                |               | 4,433                             |
| Income tax benefit (expense)  | (77)                          | -                              | -                                |               | (77)                              |
| Other income (expense)  | (4)                           | (1)                            | -                                |               | (5)                               |
| Interest expense  | (1,506)                       | (10)                           | (300)                            | (h)           | (1,816)                           |
| Total other expense   | <u>2,846</u>                  | <u>(11)</u>                    | <u>(300)</u>                     |               | <u>2,535</u>                      |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING<br/>INTEREST</b>              | <u>2,266</u>                  | <u>(335)</u>                   | <u>(936)</u>                     |               | <u>995</u>                        |
| Less: Net loss attributable to the noncontrolling interests                 | 158                           | -                              | 254                              | (i)           | 412                               |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S<br/>SHAREHOLDERS</b>        | <u>2,424</u>                  | <u>(335)</u>                   | <u>(682)</u>                     |               | <u>1,407</u>                      |
| Deemed dividend on Series A Convertible preferred stock                     | (5)                           | -                              | -                                |               | (5)                               |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S<br/>COMMON SHAREHOLDERS</b> | <u>\$ 2,419</u>               | <u>\$ (335)</u>                | <u>\$ (682)</u>                  |               | <u>\$ 1,402</u>                   |
| <b>LOSS PER COMMON SHARE - BASIC</b>  | <u>\$ 0.02</u>                |                                |                                  |               | <u>\$ 0.01</u>                    |
| <b>LOSS PER COMMON SHARE - DILUTED</b>                                      | <u>\$ 0.01</u>                |                                |                                  |               | <u>\$ 0.01</u>                    |
| <b>WEIGHTED AVERAGE COMMON SHARES<br/>OUTSTANDING - BASIC</b>               | <u>138,719,017</u>            |                                |                                  |               | <u>138,719,017</u>                |
| <b>WEIGHTED AVERAGE COMMON SHARES<br/>OUTSTANDING - DILUTED</b>             | <u>250,723,611</u>            |                                |                                  |               | <u>250,723,611</u>                |

*See accompanying notes to unaudited pro forma consolidated financial statements*

**DIGERATI TECHNOLOGIES, INC. AND NEXT LEVEL INTERNET, INC.**  
**Unaudited Pro Forma Consolidated Statement of Operations**  
(In thousands, except share amounts)  
For the Year Ended July 31, 2021

|   | <u>Historical (unaudited)</u> |                                | <u>Pro forma<br/>Adjustments</u> | <u>Note 3</u> | <u>Pro Forma<br/>Consolidated</u> |
|---|-------------------------------|--------------------------------|----------------------------------|---------------|-----------------------------------|
|   | <u>Digerati</u>               | <u>Next Level<br/>Internet</u> |                                  |               |                                   |
| <b>OPERATING REVENUES:</b>  |                               |                                |                                  |               |                                   |
| Cloud software and service revenue                                      | \$ 12,416                     | \$ 11,566                      | \$ -                             |               | \$ 23,982                         |
| Total operating revenues  | <u>12,416</u>                 | <u>11,566</u>                  | <u>-</u>                         |               | <u>23,982</u>                     |
| <b>OPERATING EXPENSES:</b>  |                               |                                |                                  |               |                                   |
| Cost of services (exclusive of depreciation and amortization)           | 5,135                         | 4,829                          | -                                |               | 9,964                             |
| Selling, general and administrative expense                             | 7,019                         | 7,460                          | -                                |               | 14,479                            |
| Legal and professional fees   | 894                           | -                              | -                                |               | 894                               |
| Bad debt  | 17                            | -                              | -                                |               | 17                                |
| Depreciation and amortization expense                                   | 1,749                         | 392                            | 2,543                            | (g)           | 4,684                             |
| Total operating expenses  | <u>14,814</u>                 | <u>12,681</u>                  | <u>2,543</u>                     |               | <u>30,038</u>                     |
| <b>OPERATING INCOME (LOSS)</b>  | <u>(2,398)</u>                | <u>(1,115)</u>                 | <u>(2,543)</u>                   |               | <u>(6,056)</u>                    |
| <b>OTHER INCOME (EXPENSE):</b>  |                               |                                |                                  |               |                                   |
| Gain on derivative instruments  | (9,935)                       | -                              | -                                |               | (9,935)                           |
| Gain on settlement of debt  | 560                           | 686                            | -                                |               | 1,246                             |
| Income tax benefit  | (183)                         | -                              | -                                |               | (183)                             |
| Other (expense) income  | (294)                         | (5)                            | -                                |               | (299)                             |
| Interest expense  | (4,765)                       | (38)                           | (1,202)                          | (h)           | (6,005)                           |
| Total other expense   | <u>(14,617)</u>               | <u>643</u>                     | <u>(1,202)</u>                   |               | <u>(15,176)</u>                   |
| <b>NET INCOME (LOSS) INCLUDING NONCONTROLLING INTEREST</b>              | <u>(17,015)</u>               | <u>(472)</u>                   | <u>(3,745)</u>                   |               | <u>(21,232)</u>                   |
| Less: Net loss attributable to the noncontrolling interests             | <u>332</u>                    | <u>-</u>                       | <u>843</u>                       | (i)           | <u>1,175</u>                      |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS</b>        | <u>(16,683)</u>               | <u>(472)</u>                   | <u>(2,902)</u>                   |               | <u>(20,057)</u>                   |
| Deemed dividend on Series A Convertible preferred stock                 | <u>(20)</u>                   | <u>-</u>                       | <u>-</u>                         |               | <u>(20)</u>                       |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO DIGERATI'S COMMON SHAREHOLDERS</b> | <u>\$ (16,703)</u>            | <u>\$ (472)</u>                | <u>\$ (2,902)</u>                |               | <u>\$ (20,077)</u>                |
| <b>LOSS PER COMMON SHARE - BASIC</b>                                    | <u>\$ (0.13)</u>              |                                |                                  |               | <u>\$ (0.15)</u>                  |
| <b>LOSS PER COMMON SHARE - DILUTED</b>                                  | <u>\$ (0.13)</u>              |                                |                                  |               | <u>\$ (0.15)</u>                  |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC</b>               |                               |                                |                                  |               |                                   |
|   | <u>129,411,947</u>            |                                |                                  |               | <u>129,411,947</u>                |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED</b>             |                               |                                |                                  |               |                                   |
|   | <u>129,411,947</u>            |                                |                                  |               | <u>129,411,947</u>                |

*See accompanying notes to unaudited pro forma consolidated financial statements*

## Notes to the Unaudited Pro Forma Consolidated Financial Statements

### **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 Next Level Internet.

#### ***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 Next Level Internet has been derived from the unaudited financial statements of the Seller 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 February 11, 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 Next Level Internet has been derived from the audited financial statements of the Seller 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 February 11, 2022.

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

The Next Level Internet 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 Next Level Internet assets acquired and liabilities assumed and conformed the accounting policies of Next Level Internet to its own accounting policies.

The unaudited 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 February 4, 2022, our indirect, wholly owned subsidiary, T3 Communications, Inc., a Nevada corporation ("T3 Nevada", "T3"), executed and closed on an Equity Purchase Agreement (the "Equity Purchase Agreement") with Next Level Internet, Inc., a California Corporation ("NLI", "Next Level", "Next Level Internet", "Seller").

Pursuant to the Stock Purchase Agreement, T3 acquired the customer base, 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 Internet Protocol Private Branch Exchange ("IP-PBX") based systems of telephony.

The total purchase price is up to \$12.90 million consisting of: (i) \$8.9 million in cash which includes payoff of certain indebtedness held at closing by Next Level and certain transaction expenses; (ii) unsecured promissory notes in the aggregate principal amount of \$2 million issued by T3 to the Sellers (the “Unsecured Notes”) with such notes payable in eight equal quarterly installments in the aggregate amount of \$250,000.00 each starting on June 4, 2022 through and including March 7, 2024. The amount owed is subject to change based on certain revenue milestones needing to be met by Next Level; and (iii) unsecured convertible promissory notes (the “Convertible Notes”) in the aggregate principal amount of \$2 million issued by T3 to the Sellers with such notes payable in eight equal quarterly installments in the aggregate amount of \$250,000.00 each starting on April 30, 2022 through and including January 31, 2024. The Sellers have a onetime right to convert all or a portion of the Convertible Notes commencing on the six-month anniversary of the notes being issued and ending 30 days after such six-month anniversary. The conversion price is the volume weighted average price per share for the ten (10) consecutive trading days immediately preceding the date on which a conversion notice is received by T3.

T3 paid \$8.9 million in cash to the Sellers on the closing date of February 4, 2022.

In addition, 120 days after the closing of the transaction, T3 will pay the Sellers the amount by which net working capital deficit is better than \$2.16 million or the Sellers will pay T3 the amount by which net working capital deficit is worse than \$2.36 million.

The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed for the Next Level Internet Acquisition:

|                                    | <b>Next Level<br/>Internet<br/>(in thousands)</b> |
|------------------------------------|---|
| Cash                               | \$ 258  |
| Accounts receivable, net           | 559   |
| Prepaid and other current assets   | 525   |
| Intangible assets and Goodwill     | 17,837  |
| Property and Equipment, net        | 1,299   |
| Deposits and other assets          | 414   |
| Operating lease right-of-use asset | 1,312   |
| <b>Total identifiable assets</b>   | <b>\$ 22,204</b>                                  |
| Less: Liabilities assumed          | 7,822   |
| Less: Operating lease liability    | 1,480   |
| <b>Total Purchase price</b>        | <b>\$ 12,902</b>                                  |

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

|                                | <b>Next Level<br/>Internet<br/>(in thousands)</b> | <b>Useful Life<br/>(in Years)</b> |
|--------------------------------|---|-----------------------------------|
| Customer Relationships         | \$ 7,313  | 7                                 |
| Trade Names and Trademarks     | 4,994   | 7                                 |
| Non-Compete Agreement          | 1,962   | 2-3                               |
| Goodwill                       | 3,567   | -                                 |
| <b>Total intangible assets</b> | <b>\$ 17,837</b>                                  |                                   |

### 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 Next Level Internet Acquisition of \$8.9 million.
- Elimination of \$500,000 for the net cash used to pay-off two promissory notes by Next Level Internet at closing;
- \$2,000,000 in earn-out associated with a Monthly Recurring Revenue targets (“MRC Target”) , of which \$1,000,000 is due in quarterly payments during the first year from the Next Level Internet Acquisition and included in the Current Note payable in the unaudited pro forma consolidated balance sheet, and \$1,000,000 is due in quarterly payments during the second year from the Next Level Internet Acquisition and included in the long term Note Payable, net of current portion in the unaudited pro forma consolidated balance sheet. \$2,000,000 is an unsecured convertible promissory note, of which \$1,000,000 is due in quarterly payments during the first year from the Next Level Internet Acquisition and included in the Current Convertible Note payable in the unaudited pro forma consolidated balance sheet, and \$1,000,000 is due in quarterly payments during the second year from the Next Level Internet Acquisition and included in the long term Convertible Note Payable, net of current portion in the unaudited pro forma consolidated balance sheet. All or a portion of the unpaid principal amount outstanding on this Note may be converted into shares of Stock at the option of Seller, in Seller’s sole and absolute discretion, at any time during the periods (A) commencing on the six-month anniversary of this Note and ending 30 days after such six-month anniversary and (B) if the Company elects to prepay this Note prior to the six- month anniversary of this Note, commencing on the date of seller’s receipt of notice of Company’s intention to prepay the Note and ending 30 days thereafter. *The conversion price* on the note shall be an amount equal to the volume weighted average price per share of Stock on the Nasdaq Stock Market for the 10 consecutive trading days immediately preceding the date on which a Conversion Notice is received by Maker; provided, however, that (i) if the Stock is not then listed for trading on the Nasdaq Stock Market, the Conversion Price shall be the volume weighted average transaction price per share reported by the OTC Reporting Facility for the 10 consecutive trading days immediately preceding the date on which such Conversion Notice is received by Maker and (ii) if, at any time within the 10 consecutive trading days prior to receipt of a Conversion Notice by Maker, the Stock was offered and sold by the Issuer to the public pursuant to an effective registration statement on Form S-1 under the Securities Act of 1933, the Conversion Price shall be the price to the public set forth in the most recent prospectus included in such registration statement. For the avoidance of doubt, in the event of a stock subdivision or combination during the 10 consecutive trading days immediately preceding the date on which a Conversion Notice is received by Maker, the volume weighted average price per share of Stock for those days prior to the stock subdivision or combination shall be adjusted to reflect such subdivision or combination.

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 Next Level Internet 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 eliminate the pay-off of two promissory notes by Next Level Internet at closing.
- e) Represents cash secured by the Company in the amount of \$8.9 million for the initial net cash payment made at closing for the Next Level Internet Acquisition and included in the Long Term Note payable in the unaudited pro forma consolidated balance sheet. The financing was secured as part of the Amended Credit Agreement and Note with Post Road Group and previously disclosed. *(Per Item 1.01, Form 8-K filed with the SEC on February 10, 2022.)*
- f) Adjustment to eliminate Next Level Internet's historical additional paid-in capital and retained earnings.
- g) 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.
- h) Represents interest expense incurred on the borrowings from the credit facility used to fund the acquisition at an interest rate of approximately 14.0%.
- i) 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.