# NEXT 1 INTERACTIVE, INC.

## FORM 10-Q
(Quarterly Report)

Filed 01/23/12 for the Period Ending 11/30/11

| | |
|---|---|
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| CIK | 0001372183 |
| Symbol | NXOI |
| SIC Code | 7310 - Advertising |
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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended: **November 30, 2011**

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

For the transition period from _____________ to _________________

Commission File No. **000-52669**

**NEXT 1 INTERACTIVE, INC.**
(Exact name of registrant as specified in its charter)

| **Nevada** | **26-3509845** |
|---|---|
| (State or other jurisdiction of incorporation or formation) | (I.R.S. Employer Identification Number) |

**2690 Weston Road, Suite 200**
**Weston, FL 33331**
(Address of principal executive offices)

**(954) 888-9779**
(Registrant's telephone number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |

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

As of January 17, 2012, there were 304,965,619 shares outstanding of the registrant's common stock.

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Next 1 Interactive, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

| | November 30, 2011 | February 28, 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 104,661 | $ 419,817 |
| Accounts receivable, net of allowance for doubtful accounts | 156,173 | 376,807 |
| Stock subscriptions receivable | 37,505 | 263,415 |
| Prepaid expenses and other current assets | 19,317 | 48,878 |
| Security deposits | 246,552 | 260,402 |
| Total current assets | 564,208 | 1,369,319 |
| | | |
| Option Agreement | 200,000 | - |
| | | |
| Website Development costs, net | 156,523 | 336,352 |
| Amortizable intangible assets, net | 2,101,829 | 2,839,154 |
| Total assets | $ 3,022,560 | $ 4,544,825 |
| | | |
| **Liabilities and Stockholders' Deficit** | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 2,385,908 | $ 2,884,838 |
| Other current liabilities | 636,522 | 1,023,476 |
| Derivative liabilities - convertible promissory notes | 413,189 | 135,348 |
| Derivative liabilities - preferred series A | 70,075 | 538,328 |
| Convertible promissory notes, net of discount of $1,348,030 and $106,745, respectively | 6,813,711 | 228,255 |
| Convertible promissory notes - related party, net of discount of $513,347 and $69,772, respectively | 591,653 | 422,428 |
| Other advances | 68,000 | 257,000 |
| Other notes payable | 73,666 | 6,927,870 |
| Shareholder loans | 860,000 | 1,042,393 |
| Capital lease payable - current portion | 39,086 | 51,239 |
| Notes payable - current portion | 1,067,384 | 1,274,384 |
| Total current liabilities | 13,019,194 | 14,785,559 |
| | | |
| Capital lease payable - long-term portion | - | 25,405 |
| | | |
| Total liabilities | 13,019,194 | 14,810,964 |
| | | |
| Stockholders' Deficit | | |
| Series A Preferred stock, $.01 par value; 3,000,000 authorized; and 809,611 and 663,243 shares issued and outstanding at November 30, 2011 and February 28, 2011, respectively | 8,096 | 6,632 |
| Series B Preferred stock, $1 par value; 3,000,000 authorized; shares issued and outstanding at November 30, 2011 and February 28, 2011, respectively | - | - |
| Series C Preferred stock, $.01 par value; 1,750,000 authorized; 0 shares issued and outstanding at November 30, 2011 and February 28, 2011, respectively | - | - |
| Common stock, $.00001 par value; 500,000,000 shares authorized; 165,951,239 and 55,015,065 shares issued; 165,951,239 and 54,857,865 shares outstanding at November 30, 2011 and February 28, 2011, respectively | 1,660 | 549 |
| Additional paid-in-capital | 51,318,545 | 43,067,860 |
| | 51,328,301 | 43,075,041 |
| Accumulated deficit | (61,324,935) | (53,215,394) |
| Treasury stock, at cost -0- shares at November 30, 2011 and 157,500 shares at February 28, 2011, respectively | - | (125,786) |
| Total stockholders' deficit | (9,996,634) | (10,266,139) |
| | | |
| Total liabilities and stockholders' deficit | $ 3,022,560 | $ 4,544,825 |

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

Next 1 Interactive, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| | For the three months ended November 30, | | For the nine months ended November 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues** | | | | |
| Travel and commission revenues | $ 140,187 | $ 198,024 | $ 689,071 | $ 839,730 |
| Advertising revenues | 270,482 | 375,102 | 416,013 | 1,086,643 |
| Total revenues | 410,669 | 573,126 | 1,105,084 | 1,926,373 |
| **Cost of revenues** | 745,732 | 2,588,210 | 2,783,680 | 7,540,374 |
| **Gross loss** | (335,063) | (2,015,084) | (1,678,596) | (5,614,001) |
| **Operating expenses** | | | | |
| Salaries and benefits | 403,453 | 537,615 | 1,182,642 | 1,430,685 |
| Selling and promotions expense | 7,000 | 101,614 | 41,801 | 377,550 |
| General and administrative | 2,370,123 | 2,674,379 | 7,516,292 | 7,314,662 |
| Total operating expenses | 2,780,576 | 3,313,608 | 8,740,735 | 9,122,897 |
| **Operating loss** | (3,115,639) | (5,328,692) | (10,419,331) | (14,736,898) |
| **Other income (expense)** | | | | |
| Interest expense | (288,378) | (197,304) | (930,786) | (353,944) |
| Loss on settlement of debt | (509,035) | - | (1,007,100) | - |
| Gain on legal settlement | - | - | 1,314,420 | 4,903,427 |
| Gain on change in fair value of derivatives | 1,131,393 | - | 3,129,790 | - |
| Other income (expense) | (26,901) | (52) | (113,535) | 5,820 |
| Total other income (expense) | 307,079 | (197,356) | 2,392,789 | 4,555,303 |
| **Net loss** | $ (2,808,560) | $ (5,526,048) | $ (8,026,542) | $ (10,181,595) |
| **Weighted average number of shares outstanding, basic and diluted** | 128,543,080 | 43,026,330 | 91,314,768 | 37,758,516 |
| **Basic and diluted net loss per share** | $ (0.02) | $ (0.13) | $ (0.09) | $ (0.27) |

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

Next 1 Interactive, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the nine months ended
(Unaudited)

| | November 30, 2011 | November 30, 2010 |
|---|---|---|
| **Cash flow from operating activities:** | | |
| Net loss | $ (8,026,542) | $ (10,181,595) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Interest on bridge loan conversions | 348,535 | - |
| Loss on settlement of debt | 1,007,100 | - |
| Gain on legal settlement | (1,314,420) | (4,903,427) |
| Amortization of intangible assets | 917,154 | 1,644,363 |
| Amortization of discount on notes payable | 4,019,957 | 1,867,196 |
| Amortization of finance fees | 23,779 | - |
| Stock based compensation and consulting fees | 1,172,303 | 2,110,058 |
| Gain on change in fair value of derivatives | (3,129,790) | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 220,634 | (91,970) |
| Decrease in prepaid expenses and other current assets | 5,782 | 219,129 |
| Decrease (increase) in security deposits | 13,850 | (47,556) |
| Increase in accounts payable and accrued expenses | 1,111,155 | 833,504 |
| (Decrease) increase in other current liabilities | (386,954) | 462,489 |
| Net cash used in operating activities | (4,017,457) | (8,087,809) |
| | | |
| **Cash flows from investing activities:** | | |
| Technology development costs | - | (203,554) |
| Purchase of option agreement | (200,000) | - |
| Purchase of treasury stock | - | (99,560) |
| Net cash used in investing activities | (200,000) | (303,114) |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from convertible promissory notes | 2,161,200 | - |
| Principal payments of convertible promissory notes | (17,000) | - |
| Proceeds from other advances | 190,000 | - |
| Proceeds from other notes payable | 130,000 | 5,639,529 |
| Principal payments of other notes payable | (152,506) | (397,714) |
| Proceeds from shareholder loans | 1,014,000 | - |
| Proceeds from sundry notes payable | 100,000 | 100,000 |
| Principal payments on sundry notes payable | (98,000) | (227,940) |
| Proceeds from capital lease | - | 56,671 |
| Principal payments on capital lease | (37,558) | (40,064) |
| Proceeds from the collection of stock subscription receivable | 263,415 | - |
| Proceeds from the sale of common stock and warrants | 348,750 | 3,116,000 |
| Net cash provided by financing activities | 3,902,301 | 8,246,482 |
| | | |
| Net decrease in cash | (315,156) | (144,441) |
| | | |
| Cash at beginning of period | 419,817 | 211,905 |
| | | |
| Cash at end of period | $ 104,661 | $ 67,464 |
| | | |
| **Supplemental disclosure:** | | |
| Cash paid for interest | $ 15,100 | $ 134,876 |

**Supplemental disclosure of non-cash investing and financing activity:**

During the nine months ended November 30, 2011, the Company issued approximately 32,385,817 shares of common stock and 18,323,330 warrants in exchange for services rendered, consisting of financing and consulting fees incurred in raising capital, valued at $1,071,792. The value of the common stock issued was based on the fair value of the stock at the time of issuance or the fair value of the services provided, whichever was more readily determinable. The value of the warrants was estimated at date of grant using Black-Scholes option pricing model with the following assumptions: risk free interest rate between 0.10% and 1.45%, dividend yield of -0-%, volatility factor of 132.88% to 445.49% and expected life of 1 to 5 years.

During the nine months ended November 30, 2011, the Company entered into warrant exchange agreement hereby cancelling 2,150,000 warrants and issuing 1,750,000 shares of common stock and incurred an additional expense of $220,816. Additionally, during the nine months ended November 30, 2011, 13,433 warrants expired and the Company entered into warrant modification agreements with various investors and incurred an additional expense of $85,133.

During the nine months ended November 30, 2011, the Company converted a series of bridge loans and promissory notes and issued 69,925,861 shares of the Company's common stock and 13,064,032 three (3) year warrants to purchase shares of the Company's common stock, par value $0.00001 per share, at an exercise price between $0.05 and $0.25 per share valued at $3,418,912.

During the nine months ended November 30, 2011, the Company issued 450,000 shares of the company stock, valued at $225,000; the Company issued 3,600,000 three (3) year warrants with an exercise price of $0.25 per share valued at $500,000; the Company issued 275,000 three (3) year warrants with an exercise price of $0.10 per share valued at $46,000;the Company issued 3,500,000 three (3) year warrants to purchase shares of the Company's common stock with an exercise price of $0.50 per share valued at $213,250. The Company incurred these transactions, plus $1,585,587 in beneficial conversion costs, in association with the issuance of convertible promissory notes. Additionally, the company increased its share reserves, in accordance to agreements, by 5,460,187 shares.

During the nine months ended November 30, 2011, the Company consummated a series of transactions with a former Board Member. The Company entered into an agreement terminating an original promissory note dated January 25, 2010. In satisfaction of the $925,000 due on the outstanding promissory note the Company: entered into a one year, six (6%) convertible promissory maturing on April 6, 2012 in the amount of $500,000 which can be converted into shares of the Company's common stock at a per share price of $0.20 (at the option of the noteholder), plus the Company issued to the noteholder 3,600,000 2 year warrants, at an exercise prices of $0.25 per share; the Company issued 2,250,000 of which 2,125,000 shares valued at $425,000 were applied in satisfaction of the remaining principal balance. The remaining 125,000 shares valued at $25,000 were issued to the former board member in satisfaction of a remaining balance due from the board member's daughter's investment in the Company also transacted in during the nine months ended November 30, 2011. The former board member also exercised 1,050,000 warrants into shares of the Company's common stock in a cashless transaction.

During the nine months ended November 30, 2011, the Company issued 60,000 shares valued at $15,000 to an employee for services rendered.

During the nine months ended November 30, 2011, the Company issued 1,012,250 ten (10) year stock options with an exercise price of $.0145 to employees, directors and executives and incurred $10,125 in compensation costs.

During the nine months ended November 30, 2011, the Company issued 435,096 shares of common stock in exchange for settlement of accounts payable valued at $42,791 per a settlement agreement with various service providers. The value of the common stock issued was based on the fair value of the stock at the time of issuance.

During the nine months ended November 30, 2011, the Company converted 80,000 shares of Series A Preferred Stock plus accrued but unpaid dividends on arrears on Series A Preferred stock, at the request of the holder, into 436,600 shares of common stock valued at $ 8,120.

During the nine months ended November 30, 2011, the Company's Board of Directors authorized the re-issuance of 157,500 shares of Treasury Stock as a fee for a consulting agreement at a cost of $125,786.

During the nine months ended November 30, 2011, 16,462,792 warrants were exercised, modified or expired

During the nine months ended November 30, 2011, $1,230,000 of principal, from current convertible promissory noteholders, was assigned to various non-related third party investors creating new convertible promissory notes. Additionally, $7,185,526 of old promissory notes were converted into new convertible promissory notes.

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

**Note 1 - Summary of Business Operations and Significant Accounting Policies**

Information regarding significant accounting policies is contained in Note 1, "Nature of Business and Summary of Significant Accounting Policies," of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for fiscal 2011. Presented below in the following notes is supplemental information that should be read in conjunction with "Notes to Consolidated Financial Statements" included in that Report.

***Nature of Operations and Business Organization***

Next 1 Interactive, Inc. ("Next 1" or the "Company"), an interactive media company, focuses on video and media advertising over Internet, Mobile and Television platforms. Historically, the Company operated through two divisions, media and travel. A third (real estate) division is anticipated to be launching during the fourth quarter of fiscal 2012.

The media division targets real estate and travel. The Company broadcasts a 24/7 digital television network called "Next 1 Network" via satellite and cable carriers. In addition, the Company delivers other digital targeted content via Broadband, Web, Print and Mobile. The Company's other media platforms include a real estate Video-On-Demand ("VOD") channel called Home TV on Demand ("Home TV"), multiple websites including "RRTV.com", which features live streaming of its television network over the web. Revenues from the media division include advertising fees from advertisements and programming aired on the Next 1 Network and production services.

The travel division operates NextTrip.com, a travel site that includes user-generated content, social networking, a directory of travel affiliate links, and travel business video showcases. In addition, this division operates as a luxury tour operator offering escorted and independent tours worldwide to upscale travelers and a cruise consortium offering marketing and technology solutions for independent cruise agencies. Revenues from the travel division include the sale of escorted and independent tours.

The Company was initially incorporated as Extraordinary Vacations Group, Inc. in the State of Delaware on June 24, 2002, and focused on the travel industry solely through the Internet.

On October 9, 2008, the Company acquired the majority of shares in Maximus Exploration Corporation, a reporting shell company, pursuant to a share exchange agreement. The share exchange provided for the exchange rate of 1 share of Maximus common stock for 60 shares Extraordinary Vacations USA common stock. The consolidated financial statements of Next 1, Interactive, Inc. reflects the retroactive effect of the Share Exchange as if it had occurred at the beginning of the reporting period. All loss per share amounts are reflected based on Next 1 shares outstanding, basic and dilutive.

***Basis of Presentation and Going Concern***

The unaudited consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These consolidated financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended February 28, 2011, which is included in the Company's Form 10-K for the year ended February 28, 2011. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company transactions and accounts have been eliminated in consolidation.

***Use of Estimates***

The Company's significant estimates include allowance for doubtful accounts, valuation of intangible assets, and valuation of stock-based compensation, accrued expenses and derivative liabilities. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when known, will vary from these estimates. If actual results significantly differ from the Company's estimates, the Company's financial condition and results of operations could be materially impacted.

**Note 1 - Summary of Business Operations and Significant Accounting Policies (continued)**

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and short-term investments with insignificant interest rate risk and original maturities of 90 days or less.

***Accounts Receivable***

The Company extends credit to its customers in the normal course of business. Further, the Company regularly reviews outstanding receivables, and provides for estimated losses through an allowance for doubtful accounts. In evaluating the level of established loss reserves, the Company makes judgments regarding its customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required. The Company also performs ongoing credit evaluations of customers' financial condition. The Company maintains reserves for potential credit losses, and such losses traditionally have been within its expectations.

***Impairment of Long-Lived Assets***

In accordance with Accounting Standards Codification 360-10, "Property, Plant and Equipment", the Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

During the nine months ended November 30, 2011 and 2010, the Company did not identify nor recognize impairment losses on long lived assets.

***Website Development Costs***

The Company accounts for website development costs in accordance with Accounting Standards Codification 350-50 "Website Development Costs". Accordingly, all costs incurred in the planning stage are expensed as incurred, costs incurred in the website application and infrastructure development stage that meet specific criteria are capitalized and costs incurred in the day to day operation of the website are expensed as incurred.

Management placed the website into service during the fiscal year ended February 28, 2010, subject to straight-line amortization over a three year period.

***Goodwill and Intangible Assets***

The Company applies Accounting Standards Codification 350-20 "Goodwill and Other", which established accounting and reporting requirements for goodwill and other intangible assets. The standard requires that all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged must be recognized as an asset apart from goodwill. Intellectual properties obtained through acquisition, with indefinite lives, are not amortized, but are subject to an annual assessment for impairment by applying a fair value based test. Intellectual properties that have finite useful lives are amortized over their useful lives. Amortization expense for the nine months ended November 30, 2011 and 2010 was $917,154 and $1,644,363, respectively.

***Convertible Debt Instruments***

The Company records debt net of debt discount for beneficial conversion features and warrants, on a relative fair value basis. Beneficial conversion features are recorded pursuant to the Beneficial Conversion and Debt Topics of the FASB Accounting Standards Codification. The amounts allocated to warrants and beneficial conversion rights are recorded as debt discount and as additional paid-in-capital. Debt discount is amortized to interest expense over the life of the debt.

**Note 1 - Summary of Business Operations and Significant Accounting Policies (continued)**

***Derivative Instruments***

The Company enters into financing arrangements that consist of freestanding derivative instruments or are hybrid instruments that contain embedded derivative features. The Company accounts for these arrangements in accordance with Accounting Standards Codification topic 815, Accounting for Derivative Instruments and Hedging Activities ("ASC 815") as well as related interpretation of this standard. In accordance with this standard, derivative instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair values with gains or losses recognized in earnings. Embedded derivatives that are not clearly and closely related to the host contract are bifurcated and are recognized at fair value with changes in fair value recognized as either a gain or loss in earnings. The Company determines the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) going forward will reflect the volatility in these estimates and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the Company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the Company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

***Earnings per Share***

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. Diluted loss per common share is not presented because it is anti-dilutive. The Company's common stock equivalents include the following:

| | **November 30, 2011** | **November 30, 2010** |
|---|---|---|
| Series A convertible preferred stock | 10,794,813 | 1,326,486 |
| Series B convertible preferred stock | -0- | -0- |
| Series C convertible preferred stock | -0- | -0- |
| Warrants to purchase common stock issued, outstanding and exercisable | 75,398,291 | 24,536,862 |
| Stock options issued, outstanding and exercisable | 2,025,000 | -0- |
| Shares on convertible promissory notes | 207,882,427 | -0- |
| | 296,100,531 | 25,863,348 |

**Note 1 - Summary of Business Operations and Significant Accounting Policies (continued)**

***Revenue Recognition***

***Barter***

Barter transactions represent the exchange of advertising or programming for advertising, merchandise or services. Barter transactions which exchange advertising for advertising are accounted for in accordance with EITF Issue No. 99-17 "Accounting for Advertising Barter Transactions" (ASC Topic 605-20-25), which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counterparty in the barter transactions.

Barter transactions which exchange advertising or programming for merchandise or services are recorded at the monetary value of the revenue expected to be realized from the ultimate disposition of merchandise or services. Expenses incurred in broadcasting barter provided are recorded when the program, merchandise or service is utilized.

Barter revenue of approximately $269,000 and $323,000 has been recognized for the nine months ended November 30, 2011 and 2010 respectively, and barter expenses of approximately $172,000 and $340,000 has been recognized for the nine months ended November 30, 2011 and 2010 respectively.

***Travel***

Gross travel tour revenues represent the total retail value of transactions booked for both agency and merchant transactions recorded at the time of booking, reflecting the total price due for travel by travelers, including taxes, fees and other charges, and are generally reduced for cancellations and refunds. We also generate revenue from paid cruise ship bookings in the form of commissions.

Commission revenue is recognized at the date the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

***Advertising***

We recognize advertising revenues in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed or determinable and collection of the resulting receivable is reasonably assured. If fixed-fee advertising is displayed over a term greater than one month, revenues are recognized ratably over the period as described below. The majority of insertion orders have terms that begin and end in a quarterly reporting period. In the cases where at the end of a quarterly reporting period the term of an insertion order is not complete, the Company recognizes revenue for the period by pro-rating the total arrangement fee to revenue and deferred revenue based on a measure of proportionate performance of its obligation under the insertion order. The Company measures proportionate performance by the number of placements delivered and undelivered as of the reporting date. The Company uses prices stated on its internal rate card for measuring the value of delivered and undelivered placements. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed or clicks delivered during the period.

Under these policies, no revenue is recognized unless persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is deemed reasonably assured. The Company considers an insertion order signed by the client or its agency to be evidence of an arrangement.

***Cost of Revenues***

Cost of revenues includes costs directly attributable to services sold and delivered. These costs include such items as broadcast carriage fees, costs to produce television content, sales commission to business partners, hotel and airfare, cruises and membership fees.

***Sales and Promotion***

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary expenses associated with sales and marketing staff, expenses related to our participation in industry conferences, and public relations expenses. The goal of our advertising is to acquire new subscribers for our e-mail products, increase the traffic to our Web sites, and increase brand awareness.

***Advertising Expense***

Advertising costs are charged to expense as incurred and are included in selling and promotions expense in the accompanying consolidated financial statements. Advertising expense for the nine months ended November 30, 2011 and November 30, 2010 was approximately $48,000 and $285,000, respectively.

**Note 1 - Summary of Business Operations and Significant Accounting Policies (continued)**

***Share Based Compensation***

The Company computes share based payments in accordance with Accounting Standards Codification 718-10 “Compensation” (ASC 718-10). ASC 718-10 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services at fair value, focusing primarily on accounting for transactions in which an entity obtains employees services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods and services that are based on the fair value of an entity’s equity instruments or that may be settled by the issuance of those equity instruments.

In March 2005, the SEC issued SAB No. 107, Share-Based Payment (“SAB 107”) which provides guidance regarding the interaction of ASC 718-10 and certain SEC rules and regulations. The Company has applied the provisions of SAB 107 in its adoption of ASC 718-10.

***Income Taxes***

The Company accounts for income taxes in accordance with ASC 740, Accounting for Income Taxes, as clarified by ASC 740-10, Accounting for Uncertainty in Income Taxes. Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, the Company considers tax regulations of the jurisdictions in which the Company operates, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the “more likely than not” criteria of ASC 740.

ASC 740-10 requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the “more-likely-than-not” threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

***Fair Value of Financial Instruments***

The Company adopted ASC topic 820, “Fair Value Measurements and Disclosures” (ASC 820), formerly SFAS No. 157 “Fair Value Measurements,” effective January 1, 2009. ASC 820 defines “fair value” as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There was no impact relating to the adoption of ASC 820 to the Company’s consolidated financial statements.

ASC 820 also describes three levels of inputs that may be used to measure fair value:

- Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

Financial instruments consist principally of cash, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and other current liabilities. The carrying amounts of such financial instruments in the accompanying balance sheets approximate their fair values due to their relatively short- term nature. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities. The carrying amounts approximate fair value. It is management’s opinion that the Company is not exposed to any significant currency or credit risks arising from these financial instruments. See note 16 for Fair Value Measurements.

***Reclassifications***

Certain amounts previously reported in the fiscal year ended February 28, 2011 have been reclassified to conform to the classifications used in the nine months ended November 30, 2011. Such reclassifications have no effect on the reported net loss.

**Note 1 - Summary of Business Operations and Significant Accounting Policies (continued)**

***Recent Accounting Pronouncements***

In May 2011, the FASB and International Accounting Standards Board ("IASB") (collectively the "Boards") issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). ASU 2011-04 created a uniform framework for applying fair value measurement principles for companies around the world and clarified existing guidance in US GAAP. ASU 2011-04 is effective for the first reporting annual period beginning after December 15, 2011 and shall be applied prospectively. We do not expect this standard to have any material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This update is intended to increase the prominence of other comprehensive income in the financial statements by requiring public companies to present comprehensive income either as a single statement detailing the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income or using a two statement approach including both a statement of income and a statement of comprehensive income. The option to present other comprehensive income in the statement of changes in equity has been eliminated. The amendments in this update, which should be applied retrospectively, are effective for public companies for fiscal years, and interim periods beginning after December 15, 2011. The adoption of this guidance will not have any impact on the Company's condensed consolidated financial statements.

During September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment,* ("ASU Update No. 2011-08). ASU Update No. 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU Update No. 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles - Goodwill and Other.* The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU Update No. 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment test performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made for issuance. We will be adopting ASU Update No. 2011-08 during our fourth quarter of fiscal 2012 and do not expect the adoption to have a material impact on our financial results.

During November 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities,* (ASU Update No. 2011-11). ASU Update No. 2011-11, requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We will be adopting ASU Update No. 2011-11during our first quarter of fiscal 2014.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed consolidated financial statements .

**Note 2 - Going Concern**

As reflected in the accompanying consolidated financial statements, the Company had an accumulated deficit of $61,324,935 and a working capital deficit of $12,454,986 at November 30, 2011, net losses for the nine months ended November 30, 2011 of $8,026,542 and cash used in operations during the nine months ended November 30, 2011 of $4,017,457. While the Company is attempting to increase sales, the growth has yet to achieve significant levels to fully support its daily operations.

Management's plans with regard to this going concern are as follows: The Company will continue to raise funds through private placements with third parties by way of a public or private offering. In addition, the Board of Directors has agreed to make available, to the extent possible, the necessary capital required to allow management to aggressively expand the N1N TV Linear Network, as well as its planned Interactive and Video on Demand solutions. Management and Board members are working aggressively to increase the viewership of our network by promoting it across other mediums as well as other networks which will increase value to advertisers and result in higher advertising rates and revenues.

While the Company believes in the viability of its strategy to improve sales volume and in its ability to raise additional funds, there can be no assurances to that effect. The Company's limited financial resources have prevented the Company from aggressively advertising its products and services to achieve consumer recognition. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan and generate greater revenues. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Management believes that the actions presently being taken to further implement its business plan and generate additional revenues provide the opportunity for the Company to continue as a going concern.

**Note 3 – Property and Equipment**

As of November 30, 2011 and 2010, respectively, the Company did not record property and equipment on its books and records. Any property and equipment previously recorded was fully impaired and written off. Therefore there was no depreciation expense recorded for the nine months ended November 30, 2011 and 2010.

**Note 4 – Website development costs and Intangible Assets**

The following table sets forth intangible assets, both acquired and developed, including accumulated amortization:

| | November 30, 2011 | | | |
|---|---|---|---|---|
| | Remaining Useful Life | Cost | Accumulated Amortization | Net Carrying Value |
| Supplier Relationships | 2.0 years | $ 7,938,935 | $ 6,035,140 | $ 1,903,795 |
| Technology | 0.0 years | 5,703,829 | 5,703,829 | -0- |
| Website development costs | 1.3 years | 719,323 | 562,800 | 156,523 |
| Trade Name | 4.7 years | 291,859 | 93,825 | 198,034 |
| | | $ 14,653,946 | $ 12,395,594 | $ 2,258,352 |

Intangible assets are amortized on a straight-line basis over their expected useful lives, estimated to be 7 years, except for the web site which is 3 years. Amortization expense related to intangible assets was $917,154 and $1,644,363 for the nine months ended November 30, 2011 and 2010, respectively.

**Note 5 – Option Purchase Agreement**

On August 23, 2011, the Company made a payment of $100,000 and entered into a sixty (60) day option agreement (the "agreement") with Realbiz Holdings, Inc. to purchase 526.5 shares of its common stock representing an 84% interest in Realbiz, Inc. As part of this agreement, the Company must also remit payment of $20,000 of past due invoices owed to Realbiz Holdings, Inc and thirty days after the date of this agreement has agreed to remit $100,000 to grant this option to be effective and binding. For the nine months ending on November 30, 2011, the Company has made $200,000 of total payments in compliance with this agreement. The exercise price is CDN 2,700,000 equivalent to approximately $2,669,000. On November 25, 2011, the Company entered into an amended agreement as follows: On December 15, 2011, the Company will purchase 221.36 shares of common stock at a purchase price of CDN 900,000 equivalent to approximately$882,000; on February 28, 2012, the Company will purchase 221.36 shares of common stock at a purchase price of CDN 907,397 equivalent to approximately $889,000; on April 30, 2012, the Company will purchase 221.36 shares of common stock at a purchase price of CDN 914,795 equivalent to approximately $897,051. As of January 23, 2012, the date of filing the Company’s 10-Q, no payments have been made to purchase the shares of common stock.

**Note 6 - Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following at November 30:

| | 2011 |
|---|---|
| Trade accounts payable | $ 1,573,980 |
| Accrued interest | 514,604 |
| Deferred salary | 76,891 |
| Accrued expenses - other | 220,433 |
| Totals | $ 2,385,908 |

**Note 7 – Notes Payable**

On May 28, 2010, the Company entered into a settlement agreement (the "Agreement") by and among the Company and Televisual Media, a Colorado limited liability company, TV Ad Works, LLC, a Colorado limited liability company, TV Net Works, a Colorado limited liability company, TV iWorks, a Colorado limited liability and Mr. Gary Turner and Mrs. Staci Turner, individuals residing in the State of Colorado (individually and collectively "TVMW," and together with the Company, the "Parties"), in order to resolve certain disputed claims regarding the service agreements referred to above. The final settlement agreement stipulates that the settlement shall not be construed as an admission or denial of liability by any Party hereto.

On March 23, 2011, the Company entered into a debt purchase agreement whereby $65,000 of certain aged debt evidenced by a Settlement Agreement dated May 28, 2010 for $1,000,000 with a remaining balance of $815,000, was purchased by a non-related third party investor. As part of the agreement, the Company received $65,000 in consideration for issuing a 6 month, 21% convertible promissory note, with a face value of $68,500 (includes $3,500 in legal fees), maturing on September 23, 2011 (see Convertible Promissory Note 12). On August 31, 2011, the noteholder entered into a wrap around agreement to assign $485,000 of its debt to investors and immediately assigned $50,000 of its principal to a non-related third party investor and the Company issued a secured convertible promissory note for the same value (see Convertible Promissory Note 12). As of November 30, 2011 the Company's loan payable balance is $703,943 and the note is in default.

On August 16, 2004, the Company entered into a promissory note with an unrelated third party for $500,000. The note bears interest at 7% per year and matured in March 2011 and is payable in quarterly installments of $25,000. The remaining principal balance of the note is $255,440 as of November 30, 2011 and the note is in default.

In February 2009, the Company restructured note agreements with three existing noteholders. The collective balance at the time of the restructuring was $250,000 plus accrued interest payable of $158,000 which was consolidated into three new notes payable totaling $408,000. The notes bear interest at 10% per year and matured on November 30, 2010, at which time the total amount of principle and accrued interest was due. In connection with the restructure of these notes the Company issued 150,000 detachable 3 year warrants to purchase common stock at an exercise price of $3.00 per share. The warrant issuance was recorded as a discount and amortized monthly over the terms of the note. On July 30, 2010, the Company issued 535,000 shares of common stock to settle all of these note agreements except for $25,000 still owed as of November 30, 2011 and the note is in default.

In connection with the acquisition of Brands on Demand, a five year lease agreement was entered into by an officer of the Company. Subsequent to terminating the officer, the Company entered into an early termination agreement with the lessor in the amount of $30,000 secured by a promissory note to be paid in monthly installments of $2,500, beginning June 1, 2009 and maturing June 1, 2010. As of November 30, 2011, the Company has not made any installment payments on this obligation and the remaining principal balance of the note is $30,000 and the note is in default.

On November 17, 2010, the Company entered into a demand note for the principal sum of $100,000. The terms of the loan is set for three weeks with the loan due and payable as of December 8, 2010. The lender has the option to receive payment of the loan in the amount of $100,000 plus 100,000 warrants for Next 1 Interactive common stock at $0.50 per share for a 3 year term or an alternative form of repayment. The alternative form of repayment gives the lender the right to have the loan amalgamated into an existing subscription agreement with the Noteholder, under the same terms of $0.50 per share with two warrants per share exercisable at $1.00 per share with a three year term. As of November 30, 2011, the Company has not issued the warrants to the lender and on May 16, 2011, entered into a convertible promissory note agreement rolling the balance of $100,000, adjoining an additional note for $125,000 into a new convertible promissory note of $225,000. See Note 12.

On June 15, 2011, the Company received $100,000 in consideration for issuing a six month interest free $106,000 promissory note maturing November 25, 2011, incurring a one-time fee of $6,000. The payments shall be due and payable as follows: $26,500 on August 15, 2011; $26,500 on September 26, 2011; $26,500 on October 25, 2011; and $26,500 on November 25, 2011. As of November 30, 2011, the remaining principal balance is $53,000 and the note is in default.

Debt maturities over the next five years attributable to the foregoing are tabulated below:

| For the nine months ending November 30, | |
|---|---|
| 2012 | $ 1,067,384 |
| 2013 | -0- |
| 2014 and thereafter | -0- |
| total | $ 1,067,384 |

Interest expense on the notes payable was $52,389 and $199,318 for the nine months ended November 30, 2011 and 2010, respectively.

**Note 8 – Capital Lease Payable**

On June 1, 2006, the Company entered into a five year lease agreement for the purchase, installation, maintenance and training costs of certain telephone, communications and computer hardware equipment with a related party. The lease requires monthly payments of $5,078 including interest at approximately 18% per year and expired on June 1, 2011. On September 3, 2010, the Company amended the original agreement and secured additional financing in the amount of $56,671 to procure additional equipment for our real estate VOD operations as part of a joint venture agreement with an un-related entity Real Biz, Inc. The purpose is to provide the funding necessary for Real Biz, Inc. to purchase and install "Solution Hardware" that will be owned by Real Biz, Inc. The lease agreement remained unchanged with the exception of the terms being extended to September 1, 2012. Interest expense on the lease was $8,149 and $9,807 for the nine months ended November 30, 2011 and 2010, respectively.

The following is a schedule by year of future minimum payments required under the lease together with their present value as of November 30, 2011.

| Six months ending November 30: | | 2011 |
|---|---|---|
| 2012 | $ | 41,849 |
| 2013 | | -0- |
| 2014 | | -0- |
| Total minimum lease payment | | 41,849 |
| Less amount representing interest | | 2,764 |
| Present value of minimum lease payments | | 39,085 |
| Less current portion | | 39,085 |
| Long-term portion | $ | -0- |

**Note 9 – Other Notes Payable**

***Related Party***

During the nine months ending November 30, 2011, the Company repaid approximately $21,319 of the balance owed to a director and officer of the Company. The loan bears interest at 18% per annum, compounded daily, on the unpaid balance and has no stated maturity date. Interest expense on the note was approximately $414 and $649, respectively for the nine months ended November 30, 2011 and 2010.

The Company has a loan payable to a party that is related to an existing director/officer for approximately $30,000. The loan bears interest at 10% per annum, compounded daily, on the unpaid balance and has no stated maturity date. On September 6, 2011, the noteholder converted $18,000 of principal and the Company issued 1,200,000 shares of common stock. On October 12, 2011, the noteholder converted the remaining principal balance (plus accrued interest) and the Company issued 1,031,365 shares of common stock. Interest expense on the loan was $2,338 and $2,429 respectively for the nine months ended November 30, 2011 and 2010.

The Company has a loan payable with an unrelated entity where the same director/officer is president and as of November 30, 2011, the Company owes approximately $5,000. The loan bears interest at 18% per annum, compounded daily, on the unpaid balance and has no stated maturity date. Interest expense on the note was $1,712 and $2,577, respectively for the nine months ended November 30, 2011 and 2010.

***Non Related Party***

On March 5, 2010, the Company entered into a promissory note with a former chairman/director ("holder") of the Company. Pursuant to the note, the holder agreed to loan the Company $3,500,000. The note has an effective date of January 25, 2010 and a maturity date of January 25, 2011. The note bears interest at 6% per annum. As an incentive, the Company, on April 30, 2010, issued 850,000 warrants to the holder with a three-year life and a fair value of approximately $175,000 to purchase shares of the Company's common stock, $0.00001 par value, per share, at an exercise price of $1.00 per share. As part of the original agreement on July 12, 2010, the Company issued 100,000 warrants to the holder with a three-year life and a fair value of approximately $22,372 to purchase shares of the Company's common stock, $0.00001 par value, per share, at an exercise price of $1.00 per share. Additionally, on July 23, 2010, the Company issued 100,000 warrants to the holder with a three-year life and a fair value of approximately $33,427 to purchase shares of the Company's common stock, $0.00001 par value, per share, at an exercise price of $1.00 per share. The fair value of the warrants was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate between 0.94% and 1.51%, dividend yield of -0-%, volatility factor between 115.05% and 124.65% and an expected life of 1.5 years. The fair value of warrants is amortized as finance fees over the term of the loan. The Company recorded approximately $230,880 in prepaid finance fees upon origination and amortized approximately $-0- and $114,000 in expense, respectively for the nine months ended November 30, 2011 and 2010. Interest charged to operations relating to this note was $4,059 and $29,221, respectively for the nine months ended November 30, 2011 and 2010. On March 11, 2011, the Company entered into a termination agreement with the noteholder where upon the note holder exercised 1,050,000 warrants into common shares, converted $450,000 of principal owed under the current note into 2,250,000 common shares, executed a new convertible promissory note of $500,000 and $25,000 was applied as a credit against a stock subscription of the holder's daughter. See footnotes 12 and 13.

**Note 9 – Other Notes Payable (continued)**

On March 5, 2010, the Company entered into a promissory note with a former director ("holder") of the Company. Pursuant to the note, the holder agreed to loan the Company $3,500,000 over a period of time. The note has an effective date of January 25, 2010 and a maturity date of January 25, 2011. The note bears interest at 6% per annum. Previous to entering into this agreement and as an incentive, the Company, on January 27, 2010, issued 7,000,000 warrants to the holder with a three-year life and a fair value of $2.3 million to purchase shares of the Company's common stock, $0.00001 par value, per share, at an exercise price of $1.00 per share. The fair value of the warrants was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 1.46%, dividend yield of -0-%, volatility factor of 136.1% and an expected life of 1.5 years. The fair value of warrants is amortized as finance fees over the term of the loan. The Company recorded approximately $2.3 million in prepaid finance fees upon origination and amortized approximately $-0- and $575,000 in expense, respectively for the nine months ended November 30, 2011 and 2010. Interest charged to operations relating to this note was $46,369 and $218,316, respectively for the nine months ended November 30, 2011 and 2010. During the nine months ended November 30, 2011, the Company received $130,000 in advances from the former director (holder) of which the Company repaid $130,000. On April 15, 2011, the former note, plus accrued interest was converted into three convertible promissory notes totaling $6,099,526. See footnote 12.

On July 23, 2010, the Company has an existing promissory note with a shareholder in the amount of $100,000. The note is due and payable on July 23, 2011 and bears interest at rate of 6% per annum. As consideration for the loan, the Company issued 100,000 warrants to the holder with a three-year life and a fair value of approximately $33,000 to purchase shares of the Company's common stock, $0.00001 par value, per share, at an exercise price of $1.00 per share. The fair value of the warrants was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of .984%, dividend yield of -0-%, volatility factor of 115.05% and an expected life of 1.5 years. The fair value of warrants is amortized as finance fees over the term of the loan. On September 26, 2011, the noteholder assigned $30,000 of its principal to a non-related third party investor and the Company issued a convertible promissory note for same value. The Company recorded approximately $33,000 in prepaid finance fees upon origination and amortized approximately $13,000 and $12,000 in expense, respectively for the nine months ended November 30, 2011 and 2010. Interest charged to operations relating to this note was $4,472 and $2,160, respectively for the nine months ended November 30, 2011 and 2010 and the note is in default.

**Note 10 – Other Advances**

***Related Party***

During the nine months ended November 30, 2011, the Company converted $168,000 of "bridge loans". The Company, as part of a conversion agreement dated April 13, 2011, of which the $98,000 was included along with $183,393 of shareholder loans, issued 1,407,016 shares of common stock and 2,814,032 3 year warrants with an exercise price $0.25 per share valued at $504,860 incurring one time interest only fee of approximately $223,000. The remaining $70,000 was converted on April 13, 2011 into a convertible promissory note, see footnote 12. The remaining principal balance as of November 30, 2011 totaled $18,000.

***Non Related Party***

During the nine months ended November 30, 2011, the Company received $190,000 in bridge loans from non-related third party investors. The Company converted $211,000 of "bridge loans" and into new convertible promissory notes, see footnote 12. The remaining principal balance as of November 30, 2011, totaled $50,000.

**Note 11 – Shareholder Loans**

During the nine months ended November 30, 2011, the Company received cash advances amounting to $1,014,000 from shareholders while incurring transaction fees totaling $11,000. In addition, 4,500,349 shares in common stock and 6,814,032 warrants were issued as $636,393 of shareholder loans were converted into equity instruments and $296,000 was converted into convertible promissory notes. Additionally, $275,000 was assigned to a third party investor creating a convertible promissory note (see footnotes number 12 for convertible promissory note #52 and reference 35 in table I).The remaining principal balance as of September 30, 2011 totaled $860,000.

**Note 12 – Convertible Promissory Notes**

Presented below is a tabled presentation of the Company's secured convertible promissory notes for the nine months ended November 30, 2011. Each table consists of non-related and related party activity. Following each table is a series of explanations of various transactions occurring for a specific convertible promissory note. Table one discloses terms of each note and analysis of principal balances. Table two discloses conversion terms, debt discount and related amortization of debt discount. Table three discloses notes requiring calculation of derivative liabilities and changes in the fair market value. Each table has its own set of references providing additional disclosures required by generally accepted accounting principles.

**Table 1**

***Non-Related Party:***

| Original Date | Note # | Principal or Value Received | Ref # | Maturity Date | Interest Rate | Principal Balance 11/30/11 | Un-Amortized Debt Discount 11/30/11 | Carrying Value 11/30/11 | Interest expense for nine months ending 11/30/11 | Interest expense for nine months ending 11/30/10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 12/14/10 | 1 | $ 50,000 | (1) | 3/14/11 | 10.0% | $ -0- | $ -0- | $ -0- | $ 1,164 | $ -0- |
| 12/17/10 | 2 | 250,000 | (2) | 3/14/11 | 10.0% | -0- | -0- | -0- | 1,427 | -0- |
| 1/11/11 | 3 | 200,000 | (3) | 2/11/11 | 6.0% | 200,000 | -0- | 200,000 | 9,321 | -0- |
| 1/11/11 | 4 | 117,200 | (4) | 1/10/12 | 5.0% | 42,200 | 2,126 | 40,074 | 2,171 | -0- |
| 2/18/11 | 5 | 50,000 | (5) | 2/28/11 | 0.0% | -0- | -0- | -0- | -0- | -0- |
| 2/14/11 | 6 | 25,000 | (6) | 5/31/12 | 6.0% | 25,000 | -0- | 25,000 | 385 | -0- |
| 2/14/11 | 7 | 25,000 | (6) | 5/31/12 | 6.0% | 25,000 | -0- | 25,000 | 385 | -0- |
| 2/14/11 | 8 | 25,000 | (7) | 5/31/12 | 0.0% | -0- | -0- | -0- | -0- | -0- |
| 1/25/11 | 9 | 85,000 | (8) | 10/27/11 | 8.0% | -0- | -0- | -0- | 2,896 | -0- |
| 3/11/11 | 10 | 100,000 | (9) | 3/11/11 | 0.0% | -0- | -0- | -0- | -0- | -0- |
| 3/11/11 | 11 | 100,000 | (9) | 3/11/11 | 0.0% | -0- | -0- | -0- | -0- | -0- |
| 3/11/11 | 12 | 25,000 | (9) | 3/11/11 | 0.0% | -0- | -0- | -0- | -0- | -0- |
| 3/14/11 | 13 | 50,000 | (10) | 12/16/11 | 8.0% | -0- | -0- | -0- | 1,622 | -0- |
| 3/17/11 | 14 | 500,000 | (11) | 4/6/12 | 6.0% | 185,000 | -0- | 185,000 | 16,826 | -0- |
| 3/23/11 | 15 | 68,500 | (12) | 9/23/11 | 21.0% | -0- | -0- | -0- | 8,166 | -0- |
| 4/15/11 | 17 | 4,388,526 | (13) | 4/15/12 | 6.0% | 4,385,326 | 912,127 | 3,473,199 | 168,268 | -0- |
| 4/15/11 | 18 | 1,500,000 | (14) | 4/15/12 | 6.0% | 1,250,000 | -0- | 1,250,000 | 53,752 | -0- |
| 4/15/11 | 19 | 211,000 | (15) | 4/15/12 | 6.0% | 211,000 | 43,893 | 167,107 | 8,094 | -0- |
| 5/15/11 | 20 | 100,000 | (16) | 5/15/12 | 6.0% | 100,000 | -0- | 100,000 | 3,325 | -0- |
| 5/13/11 | 21 | 150,000 | (1) | 5/31/12 | 6.0% | 150,000 | -0- | 150,000 | 5,039 | -0- |
| 5/12/11 | 22 | 225,000 | (17) | 8/31/12 | 6.0% | -0- | -0- | -0- | 6,718 | -0- |
| 6/1/11 | 23 | 25,000 | (18) | 5/31/12 | 6.0% | 25,000 | -0- | 25,000 | 759 | -0- |
| 6/1/11 | 24 | 150,000 | (19) | 5/31/12 | 6.0% | 150,000 | -0- | 150,000 | 4,555 | -0- |
| 6/16/11 | 25 | 60,000 | (20) | 3/20/12 | 8.0% | 60,000 | 23,928 | 36,072 | 2,237 | -0- |
| 5/23/11 | 28 | 46,000 | (21) | 5/31/12 | 6.0% | 46,000 | -0- | 46,000 | 1,467 | -0- |
| 6/27/11 | 29 | 100,000 | (22) | 5/31/12 | 6.0% | 24,250 | 21,474 | 2,776 | 1,055 | -0- |
| 7/12/11 | 30 | 50,000 | (23) | 5/31/12 | 6.0% | 50,000 | -0- | 50,000 | 1,172 | -0- |

**Note 12 – Convertible Promissory Notes (continued)**

**Table 1 (continued)**

***Non-Related Party (continued):***

| Original Date | Note # | Principal or Value Received | Ref # | Maturity Date | Interest Rate | Principal Balance 11/30/11 | Un-Amortized Debt Discount 11/30/11 | Carrying Value 11/30/11 | Interest expense for nine months ending 11/30/11 | Interest expense for nine months ending 11/30/10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 6/15/11 | 31 | 75,000 | (24) | 5/31/12 | 6.0% | 75,000 | -0- | 75,000 | 2,100 | -0- |
| 6/15/11 | 32 | 150,000 | (25) | 5/31/12 | 6.0% | 150,000 | -0- | 150,000 | 4,200 | -0- |
| 8/12/11 | 33 | 50,000 | (26) | 5/31/12 | 6.0% | -0- | -0- | -0- | -0- | -0- |
| 8/24/11 | 34 | 80,000 | (27) | 7/31/12 | 6.0% | -0- | -0- | -0- | -0- | -0- |
| 8/12/11 | 35 | 50,000 | (28) | 7/31/12 | 6.0% | 10,000 | 8,472 | 1,528 | 502 | -0- |
| 8/12/11 | 37 | 17,000 | (29) | 5/31/12 | 6.0% | -0- | -0- | -0- | -0- | -0- |
| 8/12/11 | 38 | 15,000 | (29) | 5/31/12 | 6.0% | 15,000 | -0- | 15,000 | 266 | -0- |
| 8/12/11 | 39 | 10,000 | (29) | 5/31/12 | 6.0% | 10,000 | -0- | 10,000 | 177 | -0- |
| 8/12/11 | 40 | 10,000 | (29) | 5/31/12 | 6.0% | 10,000 | -0- | 10,000 | 177 | -0- |
| 8/12/11 | 42 | 25,000 | (29) | 5/31/12 | 6.0% | 25,000 | -0- | 25,000 | 444 | -0- |
| 8/12/11 | 43 | 10,000 | (29) | 5/31/12 | 6.0% | 10,000 | -0- | 10,000 | 177 | -0- |
| 8/12/11 | 44 | 13,000 | (29) | 5/31/12 | 6.0% | 13,000 | -0- | 13,000 | 231 | -0- |
| 7/26/11 | 46 | 45,000 | (30) | 7/31/12 | 6.0% | 45,000 | -0- | 45,000 | 949 | -0- |
| 8/3/11 | 47 | 45,000 | (31) | 7/31/12 | 6.0% | 45,000 | -0- | 45,000 | 889 | -0- |
| 10/5/11 | 48 | 50,000 | (32) | 9/30/12 | 6.0% | -0- | -0- | -0- | 41 | -0- |
| 9/2/11 | 50 | 40,000 | (33) | 5/31/12 | 8.0% | 40,000 | 26,917 | 13,083 | 788 | -0- |
| 10/14/11 | 51 | 83,000 | (34) | 7/31/12 | 8.0% | 83,000 | -0- | 83,000 | 859 | -0- |
| 9/27/11 | 52 | 275,000 | (35) | 8/31/12 | 12.0% | 210,000 | 190,909 | 19,091 | 5,044 | -0- |
| 10/13/11 | 53 | 100,000 | (36) | 9/30/12 | 6.0% | 75,000 | 75,000 | -0- | 627 | -0- |
| 9/26/11 | 54 | 75,000 | (37) | 8/31/12 | 6.0% | -0- | -0- | -0- | 142 | -0- |
| 10/13/11 | 56 | 50,000 | (38) | 9/30/12 | 6.0% | 50,000 | 43,184 | 6,816 | 396 | -0- |
| 11/11/11 | 57 | 236,702 | (39) | 9/30/12 | 8.0% | 231,965 | -0- | 231,965 | 972 | -0- |
| 9/27/11 | 58 | 135,000 | (46) | 9/27/12 | 12.0% | 135,000 | -0- | 135,000 | 2,870 | -0- |
| | | | | | | 8,161,741 | 1,348,030 | 6,813,711 | 322,655 | -0- |

***Related Party:***

| Original Date | Note # | Principal or Value Received | Ref # | Maturity Date | Interest Rate | Principal Balance 11/30/11 | Un-Amortized Debt Discount 11/30/11 | Carrying Value 11/30/11 | Interest expense for nine months ending 11/30/11 | Interest expense for nine months ending 11/30/10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 4/13/11 | 16 | $ 70,000 | (40) | 6/13/11 | 0.0% | $ -0- | $ -0- | $ -0- | $ -0- | $ -0- |
| 5/23/11 | 26 | 25,000 | (41) | 5/31/12 | 6.0% | 25,000 | -0- | 25,000 | 797 | -0- |
| 5/23/11 | 27 | 70,000 | (40) | 5/31/12 | 6.0% | 70,000 | -0- | 70,000 | 2,232 | -0- |
| 8/12/11 | 41 | 10,000 | (29) | 5/31/12 | 6.0% | 10,000 | -0- | 10,000 | 177 | -0- |
| 8/15/11 | 36 | 250,000 | (42) | 5/31/12 | 8.0% | 250,000 | -0- | 250,000 | 5,763 | -0- |
| 8/26/11 | 45 | 250,000 | (43) | 5/31/12 | 8.0% | 250,000 | 163,984 | 86,016 | 5,315 | -0- |
| 10/14/11 | 49 | 200,000 | (44) | 7/31/12 | 8.0% | 200,000 | 139,736 | 60,264 | 2,071 | -0- |
| 10/4/11 | 55 | 300,000 | (45) | 7/31/12 | 8.0% | 300,000 | 209,627 | 90,373 | 3,771 | -0- |
| | | | | | | 1,105,000 | 513,347 | 591,653 | 20,126 | -0- |
| | | | | | | $9,236,741 | $1,861,377 | $7,405,364 | $ 342,781 | $ -0- |

**Note 12 – Convertible Promissory Notes (continued)**

**Table 1 (continued)**

***References Table 1***

(1) On December 14, 2010, the Company received $50,000 from a third party investor and issued a convertible promissory note. On May 31, 2011 an agreement was entered into with the note holder rolling over the $50,000 in combination with $100,000 proceeds received on May 13, 2011, into a new promissory note dated May 13, 2011 totaling $150,000.

(2) On December 17, 2010, the Company received $250,000 from a third party investor and issued a convertible promissory note. On March 30, 2011, the Company issued 1,250,000 shares of common stock and three (3) year warrants with an exercise price of $0.25 per share to the noteholder upon full conversion of the promissory note.

(3) On January 11, 2011 the Company received $200,000 from a third party investor and issued a convertible promissory note.

(4) On January 11, 2011, the Company issued a convertible promissory note in the amount of $117,200 to one of its shareholders, former chief operating officer and board member in satisfaction of unpaid salary, deferred salary, a previous $10,000 outstanding loan to the Company and unpaid interest on the loan. On April 8, 2011, the Company issued 375,000 shares of common stock and 750,000 three (3) year warrants with an exercise price of $0.25 per share as a partial conversion of the note reducing the principal balance by $75,000.

(5) On February 18, 2011, the Company received $50,000 from a third party investor and issued a convertible promissory note. The Company issued as a onetime payment of 100,000 shares of common stock in lieu of interest.

(6) On February 14, 2011, the Company received $25,000 from a third party investor and issued a convertible promissory note. The Company issued as a onetime payment of 50,000 shares of common stock in lieu of interest. On August 29, 2011 terms of the note were modified and a new note was issued with the same principal balance of $25,000, bearing interest at 6% and a maturity date of May 31, 2012.

(7) On February 14, 2011, the Company received $25,000 from a third party investor and issued a convertible promissory note. The Company issued as a onetime payment 50,000 shares of common stock in lieu of interest. On March 14, 2011, the Company issued 125,000 shares of common stock and 250,000 three (3) year warrants with an exercise price of $0.25 per share to the noteholder upon conversion of the $25,000 promissory note.

(8) On January 25, 2011, the Company received $85,000 from a third party investor and issued a convertible promissory note. As a partial conversion of debt the Company on August 3, 2011 and August 10, 2011, issued 613,497 and 1,630,435 common shares, respectively at $0.03 per share and $0.02 per share reducing the principal amount by $10,000 and $15,000 respectively. The remaining $60,000 of principal was assigned, during August 2011, to various non-related third party investors in full satisfaction of this debt.

(9) On March 11, 2011, the Company received $225,000 in "bridge loans" from three un-related parties and issued three convertible promissory notes. The Company issued as a onetime payment of 225,000 shares of common stock in lieu of interest. Simultaneously, the Company entered into a conversion agreement with each note holder converting at $0.20 per share and 1,125,000 shares of common stock were issued along with 2,250,000 warrants exercisable at $0.25 per share with a three (3) year term.

(10) On March 14, 2011, the Company received $50,000 from a third party investor and issued a convertible promissory note. During August 2011, the noteholder made a series of assignments of its entire principal balance to various third party non-related investors.

(11) On March 17, 2011, the Company issued to the noteholder 3,600,000 two (2) year warrants, at an exercise price of $0.25 per share and 2,250,000 shares of common stock valued at $425,000 as partial satisfaction of a $925,000 executed on January 25, 2010. A new convertible promissory note was executed in the remaining balance amount of $500,000. The following assignments of principal were executed: On July 26, 2011, August 3, 2011, August 15, 2011, August 18, 2011 and September 26, 2011, the note holder assigned $45,000, $45,000, $50,000, $50,000, $80,000 and $75,000, respectively, of principal to non-related third party investors.

(12) On March 23, 2011, the Company entered into a debt purchase agreement whereby $65,000 of certain aged debt evidenced by a Settlement Agreement dated August 28, 2010 for $1,000,000 with a remaining balance of $815,000, was purchased by a non-related third party investor. As part of the agreement, the Company received $65,000 in proceeds and incurred $3,500 in legal fees and issued a convertible promissory note in the amount of $68,500. Upon execution of the note, the Company instructed our stock transfer agent to reserves 765,000 shares of common stock per terms of the agreement. On September 30, 2011, October 11, 2011 and October 12, 2011, the noteholder converted: $35,666 of principal and the Company issued 4,100,000 shares at $0.01075 per share, converted $21,919 of principal and the Company issued 2,664,543 shares at $0.00825 per share and converted $9,915 of principal and the Company issued 1,683,000 shares at $0.00825 per share, respectively.

(13) On April 15, 2011, the noteholder, a former board member, renegotiated their former note dated January 25, 2010 into three (3) separate convertible promissory notes with this note amounting to $4,388,526. On July 25, 2011, the noteholder converted $3,200 of principal into 80,000 shares of common stock at a price of $0.04 per share, leaving a remaining principal balance of $4,385,326.

(14) On April 15, 2011, the noteholder, a former board member, renegotiated their former note dated January 25, 2010 into three (3) separate convertible promissory notes with this note amounting to $1,500,000. On June 27, 2011, the noteholder assigned $100,000 of principal to a non-related third party investor. On September 27, 2011, the noteholder assigned $100,000 of their debt to a non-related third party

investor. On October 13, 2011, the noteholder assigned $50,000 of its principal to a non-related third party investor.

**Note 12 – Convertible Promissory Notes (continued)**

**Table 1 (continued)**

***References Table 1* (continued)**

(15) On April 15, 2011, the noteholder, a former board member, renegotiated their former note dated January 25, 2010 into three (3) separate convertible promissory notes with this note amounting to $211,000.

(16) On May 15, 2011, the Company received $100,000 from a third party investor and issued a convertible promissory note.

(17) On May 12, 2011, the Company received $125,000 from a third party investor and issued a convertible promissory note. Consequently, on May 16, 2011 the Company entered into a secured convertible promissory note with the same shareholder which combined a previous convertible promissory note dated November 17, 2010 valued at $100,000 with the $125,000 convertible promissory note dated May 12, 2011, totaling $225,000. On November 11, 2011, the noteholder assigned 225,000 of its principal plus $5,000 in legal fees and $6,702 in accrued interest to a non-related third party investor and a new promissory note was issued in the amount of $236,702.

(18) On June 1, 2011, the Company received $25,000 from a third party investor and issued a convertible promissory note.

(19) On June 1, 2011, the Company received $150,000 from a third party investor and issued a convertible promissory note.

(20) On June 16, 2011, the Company received $57,500 from a third party investor, incurred legal costs of $2,500 and issued a convertible promissory note. Upon execution of the note, the Company instructed our stock transfer agent to reserve 6,933,744 shares of common stock per terms of the agreement.

(21) On May 23, 2011, the Company converted a $21,000 shareholder loan previously received during the prior fiscal year ended February 28, 2011 and combined that with a $25,000 shareholder loan received on May 23, 2011, in consideration for issuing a convertible promissory note maturing on May 31, 2012 totaling $46,000 and issued 275,000 three (3) year warrants with an exercise price of $0.10 per share.

(22) On June 27, 2011, a noteholder assigned $100,000 of its $1.5 million outstanding promissory note to this non-related third party investor and the Company issued a convertible promissory note of the same value. On June 28, 2011, the noteholder converted $25,000 of principal and the Company issued 500,000 shares of common stock at $.06 per share. On July 18, 2011, the noteholder converted $25,000 of principal and the Company issued 831,670 shares of common stock at $0.05 per share. On September 13, 2011, the noteholder converted $25,750 of principal and the company issued 1,854,653 shares of common stock at $0.01380 per share.

(23) On July 12, 2011, the Company received $50,000 from a third party investor and issued a convertible promissory note.

(24) On June 15, 2011, the Company issued a convertible promissory note in the amount of $75,000 representing a shareholder advance made on behalf of the Company on November 11, 2010.

(25) On June 15, 2011, the Company issued a convertible promissory note in the amount of $150,000 representing a shareholder advance made on behalf of the Company on December 13, 2010.

(26) On August 12, 2011, a noteholder assigned $50,000 of its $500,000 outstanding promissory note to a non-related third party investor and the Company issued a new convertible promissory note for the same value. On August 18, 2011, the Company issued 4,000,000 shares of its common stock at a variable conversion rate of $0.0073 per share, thereby reducing the principal balance by $29,200. On August 30, 2011, the Company issued 1,142,857 shares of its common stock at a variable conversion rate of $0.01820 per share, thereby reducing the principal balance by $20,800 resulting in the full satisfaction of the debt.

(27) On August 24, 2011, a noteholder assigned $80,000 of its $500,000 outstanding promissory note to a non-related third party investor and the Company issued a new convertible promissory note for the same value. On August 24, 2011, the Company issued 4,000,000 shares of its common stock at a conversion rate of $0.02 per share, thereby reducing the principal balance by $80,000 resulting in full satisfaction of the debt.

(28) On August 12, 2011, a noteholder assigned $50,000 of its $500,000 outstanding promissory note to a non-related third party investor and the Company issued a new convertible promissory note for the same value. On August 25, 2011, the Company issued 979,752 shares of its common stock at $0.03 per share, thereby reducing the principal balance by $15,000. On October 20, 2011, the Company issued 3,671,072 shares at $0.01362 per share, thereby reducing the principal balance by $25,000.

(29) On August 12, 2011, a noteholder that held two 8 % convertible promissory notes in the amounts of $85,000 and $50,000, dated as of January 25, 2011 and March 14, 2011, entered into an assignment agreement (the "agreement") with third party investors assigning its remaining principal balances of $60,000 (January 25, 2011) and $50,000 (March 14, 2011) to various individuals reducing the original convertible promissory notes to a zero balance at August 31, 2011. Noteholder #37 was assigned $17,000. On August 17, 2011, the Company issued a wire transfer in full settlement of the outstanding principal balance. Noteholder #38 was assigned $15,000. Noteholder #39 was assigned $10,000. Noteholder #40 was assigned $10,000. Noteholder #42 was assigned $25,000. Noteholder #43 was assigned $10,000. Noteholder #44 was assigned $13,000. Noteholder #41 was assigned $10,000.

On July 26, 2011, a noteholder assigned $45,000 of its $500,000 outstanding promissory note to a non-related third party investor and

(30) issued a new convertible promissory note for the same value.

**Note 12 – Convertible Promissory Notes (continued)**

**Table 1 (continued)**

***References Table 1* (continued)**

(31) On August 3, 2011, a noteholder assigned $45,000 of its $500,000 outstanding promissory note to a non-related third party investor and issued a new convertible promissory note for the same value.

(32) On October 5, 2011, a noteholder assigned $50,000 of its $753,943 outstanding promissory note to a non-related third party investor and issued a new convertible promissory note for the same value. On October 10, 2011, the noteholder converted $50,000 of principal and the Company issued 5,000,000 shares of common stock at $.02 per share, resulting in a full satisfaction of the debt.

(33) On September 2, 2011, the Company incurred consulting fees of $40,000 and issued a convertible promissory note for the same value. Additionally, the Company also issued 800,000 4 year warrants with an exercise price of $0.05 per share.

(34) On October 14, 2011, the Company received $83,000 in proceeds and issued a convertible promissory note.

(35) On September 27, 2011, a noteholder assigned $275,000 of its principal to a non-related third party investor and the Company issued a new convertible promissory note of the same value. On October 7, 2011, the noteholder converted $30,000 of principal into 3,750,000 shares at a price of $0.008 per share, thereby leaving a remaining balance of $245,000. On October 25, 2011, the noteholder converted $35,000 of principal and the Company issued 5,631,536 shares of common stock at $0.006215 per share, thereby reducing the principal balance to $210,000.

(36) On September 27, 2011, a noteholder assigned $100,000 of their debt to a non-related third party investor and the Company issued a convertible promissory note for the same value. On October 21, 2011, the noteholder converted $25,000 of principal into 3,989,786 shares at a conversion price of $0.006266 per share, leaving a remaining principal balance of $75,000.

(37) On September 26, 2011 a noteholder assigned $45,000 of its $500,000 outstanding promissory note and $30,000 of its $100,000 outstanding promissory note to a non-related third party investor and the Company issued a new convertible promissory note for $75,000. On September 30, 2011, the noteholder converted $25,000 of principal into 2,558,853 shares of common stock of the Company at $.00977 per share, leaving a remaining principal balance of $50,000. On October 7, 2011, the noteholder converted $20,000 of principal into 2,439,024 shares of common stock of the Company at $.0082 per share, leaving a remaining principal balance of $30,000. On October 14, 2011, the noteholder converted $30,000 of principal into 3,382,187 shares of common stock of the Company at $.0082 per share, leaving a remaining principal balance of $-0-.

(38) On October 13, 2011, a note holder assigned $50,000 of its principal to a third party investor and the company issued a convertible promissory note for the same value.

(39) On November 11, 2011, a noteholder assigned 225,000 of its principal plus $5,000 in legal fees and $6,702 in accrued interest to a non-related third party investor and a new promissory note was issued in the amount of $236,702. On November 16, 2011, the noteholder converted $4,737 of principal and $263 of interest and the Company issued 416,667 shares at $0.012 per share.

(40) On April 13, 2011, the Company converted $70,000 of "bridge loans' received during the year ended February 28, 2011, into an interest free convertible promissory note with a maturity date of June 13, 2011. On May 23, 2011, the Company converted the $70,000 interest free convertible promissory note with a maturity date of June 13, 2011 with the related party in consideration of issuing a new promissory note.

(41) On May 23, 2011, the Company converted a shareholder loan in the amount of $25,000 in consideration for issuing convertible promissory note.

(42) On August 15, 2011, the Company received $250,000 from a board director and issued a convertible promissory note.

(43) On August 26, 2011, the Company received $250,000 from a board director and issued a convertible promissory note.

(44) On October 14, 2011, the Company received $200,000 from a board director and issued a convertible promissory note.

(45) On October 4, 2011, the Company received $300,000 from a board director and issued a convertible promissory note.

(46) On October 7, 2011, the Company received $102,200 in proceeds from a third-party investor, net of $32,800 of fees and issued a convertible promissory note valued at $135,000.

**Table 2**

***Non-Related Party:***

| Conversion | Debt Discount Allocation | Amortization for nine months ended |
|---|---|---|

| Note # | Ref # | Price 11/30/11 | Shares 11/30/11 | Warrants | BCF | Derivatives | Total | 11/30/11 | 11/30/10 | No. of Mths | Floor |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (1) | $ 0.5000 | -0- | $ 19,500 | $ 8,000 | $ -0- | $ 27,500 | $ 4,244 | $ -0- | 0 | |
| 2 | (2) | $ 0.5000 | -0- | 100,000 | 50,000 | -0- | 150,000 | 32,251 | -0- | 0 | |
| 3 | (3) | $ 0.4000 | 500,000 | 55,000 | -0- | -0- | 55,000 | -0- | -0- | 0 | |
| 4 | (4) | $ 0.0750 | 562,667 | -0- | 41,020 | 13,926 | 54,946 | 44,232 | -0- | 1 | |
| 5 | (5) | $ 0.2000 | -0- | 16,500 | 30,000 | -0- | 46,500 | 24,360 | -0- | 0 | |
| 6 | (5) | $ 0.0150 | 1,666,667 | 6,250 | 2,500 | -0- | 8,750 | 2,912 | -0- | 0 | |
| 7 | (5) | $ 0.0150 | 1,666,667 | 6,250 | 2,500 | -0- | 8,750 | 2,912 | -0- | 0 | |
| 8 | (5) | $ 0.2000 | -0- | 6,250 | 2,500 | -0- | 8,750 | 2,912 | -0- | 0 | |
| 9 | (6) | $ 0.0055 | -0- | -0- | 85,000 | -0- | 85,000 | 74,494 | -0- | 0 | |
| 10 | (5) | $ 0.2000 | -0- | 61,000 | 39,000 | -0- | 100,000 | 100,000 | -0- | 0 | |

**Note 12 – Convertible Promissory Notes (continued)**

**Table 2 (continued)**

***Non-Related Party (continued):***

| | | | | Debt Discount Allocation | | | | Amortization for nine months ended | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Note # | Ref # | Price 11/30/11 | Shares 11/30/11 | Warrants | BCF | Derivatives | Total | 11/30/11 | 11/30/10 | No. of Mths | Floor |
| 11 | (5) | $0.2000 | -0- | 61,000 | 39,000 | -0- | 100,000 | 100,000 | -0- | 0 | |
| 12 | (5) | $0.2000 | -0- | 15,250 | 9,750 | -0- | 25,000 | 25,000 | -0- | 0 | |
| 13 | (6) | $0.0055 | -0- | -0- | 30,607 | 19,393 | 50,000 | 50,000 | -0- | 0 | |
| 14 | (7) | $0.2000 | -0- | 175,000 | 225,000 | -0- | 400,000 | 400,000 | -0- | 0 | |
| 15 | (8) | $0.1000 | -0- | -0- | 61,650 | -0- | 61,650 | 61,650 | -0- | 0 | $ 0.10 |
| 17 | (9) | $0.0090 | 7,227,655 | -0- | 344,160 | 2,092,878 | 2,437,038 | 1,524,911 | -0- | 5 | |
| 18 | (10) | $0.1000 | 7,227,655 | -0- | 150,000 | -0- | 150,000 | 150,000 | -0- | 5 | $ 0.10 |
| 19 | (9) | $0.0090 | 7,227,655 | -0- | 16,549 | 100,624 | 117,173 | 73,280 | -0- | 5 | |
| 20 | (11) | $0.1000 | 1,000,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 21 | (12) | $0.1000 | 1,500,000 | -0- | 90,000 | -0- | 90,000 | 90,000 | -0- | 0 | $ 0.10 |
| 22 | (13) | $0.1000 | -0- | 38,250 | 135,000 | -0- | 173,250 | 173,250 | -0- | 0 | $ 0.10 |
| 23 | (12) | $0.1000 | 250,000 | -0- | 15,000 | -0- | 15,000 | 15,000 | -0- | 0 | $ 0.10 |
| 24 | (12) | $0.1000 | 1,500,000 | -0- | 90,000 | -0- | 90,000 | 90,000 | -0- | 0 | $ 0.10 |
| 25 | (14) | $0.0055 | 7,227,655 | -0- | 60,000 | -0- | 60,000 | 36,072 | -0- | 4 | |
| 28 | (15) | $0.1000 | 460,000 | 8,740 | 37,260 | -0- | 46,000 | 46,000 | -0- | 0 | $ 0.10 |
| 29 | (16) | $0.0060 | 4,041,667 | -0- | 46,875 | 41,677 | 88,552 | 67,078 | -0- | 3 | |
| 30 | (12) | $0.1000 | 500,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 31 | (12) | $0.1000 | 750,000 | -0- | 75,000 | -0- | 75,000 | 75,000 | -0- | 0 | $ 0.10 |
| 32 | (12) | $0.1000 | 1,500,000 | -0- | 145,296 | 4,704 | 150,000 | 150,000 | -0- | 0 | $ 0.10 |
| 33 | (17) | $0.0055 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 0 | |
| 34 | (18) | $0.0200 | -0- | -0- | 80,000 | -0- | 80,000 | 80,000 | -0- | 0 | |
| 35 | (19) | $0.0050 | 2,000,000 | -0- | -0- | 42,361 | 42,361 | 33,889 | -0- | 6 | |
| 37 | (20) | $0.1000 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 38 | (21) | $0.1000 | 150,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 39 | (21) | $0.1000 | 100,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 40 | (22) | $0.1000 | 100,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 42 | (22) | $0.1000 | 250,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 43 | (21) | $0.1000 | 100,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 44 | (22) | $0.1000 | 130,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 46 | (23) | $0.1000 | 450,000 | -0- | 15,000 | -0- | 15,000 | 15,000 | -0- | 0 | $ 0.10 |
| 47 | (24) | $0.1000 | 450,000 | -0- | 30,000 | -0- | 30,000 | 30,000 | -0- | 0 | $ 0.10 |
| 48 | (25) | $0.0100 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 50 | (26) | $0.0120 | 3,333,333 | 8,800 | 31,200 | -0- | 40,000 | 13,083 | -0- | 6 | $ 0.05 |
| 51 | (27) | $0.0200 | 4,150,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 52 | (28) | $0.0110 | 19,090,909 | -0- | 250,000 | -0- | 250,000 | 59,091 | -0- | 9 | $ 0.011 |
| 53 | (29) | $0.0050 | 7,227,655 | -0- | -0- | 100,000 | 100,000 | 25,000 | -0- | 9 | |
| 54 | (30) | $0.0050 | -0- | -0- | -0- | 75,000 | 75,000 | 75,000 | -0- | 0 | |
| 56 | (29) | $0.0050 | 7,227,655 | -0- | -0- | 50,000 | 50,000 | 6,816 | -0- | 9 | |
| 57 | (31) | $0.0120 | 19,330,417 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | |
| 58 | (35) | $0.0110 | 7,227,653 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.011 |
| | | | 116,125,910 | 577,790 | 2,237,867 | 2,540,563 | 5,356,220 | 3,753,437 | -0- | | |

**Note 12 – Convertible Promissory Notes (continued)**

**Table 2 (continued)**

***Related Party:***

| | | Conversion | | Debt Discount Allocation | | | | Amortization for nine months ended | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Note # | Ref # | Price 11/30/11 | Shares 11/30/11 | Warrants | BCF | Derivatives | Total | 11/30/11 | 11/30/10 | No. of Mths | Floor |
| 16 | (32) | $ 0.2000 | -0- | -0- | 18,200 | -0- | 18,200 | 18,200 | -0- | 0 | |
| 26 | (12) | $ 0.1000 | 250,000 | -0- | 25,000 | -0- | 25,000 | 25,000 | -0- | 0 | $ 0.10 |
| 27 | (12) | $ 0.1000 | 700,000 | -0- | 70,000 | -0- | 70,000 | 70,000 | -0- | 0 | $ 0.10 |
| 41 | (21) | $ 0.1000 | 100,000 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.10 |
| 36 | (33) | $ 0.0120 | 20,833,333 | -0- | -0- | -0- | -0- | -0- | -0- | 0 | $ 0.05 |
| 45 | (33) | $ 0.0120 | 20,833,333 | -0- | 250,000 | -0- | 250,000 | 86,016 | -0- | 6 | $ 0.05 |
| 49 | (34) | $ 0.0120 | 16,666,667 | -0- | 166,667 | -0- | 166,667 | 26,931 | -0- | 8 | $ 0.05 |
| 55 | (34) | $ 0.0120 | 25,000,000 | -0- | 250,000 | -0- | 250,000 | 40,373 | -0- | 8 | $ 0.05 |
| | | | 84,383,333 | -0- | 779,867 | -0- | 779,867 | 266,520 | -0- | | |
| | | | 200,509,243 | $ 577,790 | $3,017,734 | $ 2,540,563 | $6,136,087 | $4,019,957 | $ -0- | | |

***References Table 2***

(1) There is a conversion option price of $0.50 per share. The Company issued to the noteholder a 100,000, five-year Series 1 Warrants, par value of $0.00001 per share, at an exercise price of $0.50 per share. Additionally, the Company issued to the holder of the note 100,000 Series 2 Warrants, par value of $0.00001 per share, at an exercise price of $0.75 per share, with a term of five years. These warrants were valued using the Black-Scholes method assuming a fair value of $0.39, risk-free interest rate of 2.08% and 129.97% volatility index.

(2) There is a conversion option price of $0.50 per share. The Company issued to the noteholder 1,000,000, five-year Series 1 Warrants, par value of $0.00001 per share, at an exercise price of $0.50 per share. These warrants were valued using the Black-Scholes method assuming a fair value of $0.39, risk-free interest rate of 1.37% and 129.97% volatility index.

(3) There is a conversion option price of $0.40 per share. The Company issued to the shareholder 500,000, six-year Series 1 Warrants, par value of $0.00001 per share, at an exercise price of $0.40 per share. Additionally, the Company issued to the holder of the note 500,000 Series 2 Warrants, par value of $0.00001 per share, at an exercise price of $0.75 per share, with a term of six years. These warrants were valued using the Black–Scholes method between $0.0799 and $0.0928 per share, assuming a fair value per share of $0.27, risk-free interest rate of 2.08% and 129.33% volatility index.

(4) There is a conversion option to exchange the amount outstanding into the shares of the Company's common stock at a conversion price of $0.50 per share or the lowest price the Company's common stock is sold in a public financing.

(5) There is a conversion option price of $0.20 per share.

(6) The conversion price shall equal the Variable Conversion Price subject to equitable adjustments for stock splits, stock dividends or right offerings by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events. The "Variable Conversion Price" shall mean 55% multiplied by the Market Price. The Market Price means the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date.

(7) There is a conversion option price of $0.20 per share. The Company issued to the noteholder 3,600,000 2 year warrants, at an exercise prices of $0.25 per share and valued the two (2) year warrants using the Black–Scholes method at $0.0735 per share, resulting in a total value of $175,000 assuming a fair value per share of $0.22, risk-free interest rate of 0.60% and 143.05% volatility index.

**Note 12 – Convertible Promissory Notes (continued)**

**Table 2 (continued)**

***References Table 2 (continued)***

| | |
|---|---|
| (8) | The lender shall have the option to convert the outstanding principal of this note at a Fifty Percent (50%) discount to the "Fair Market Value" (the "Conversion Rate") but not to exceed Ten Cents ($0.10) per share. However, should the Borrower effect a forward split, the ceiling price of Ten Cents ($0.10) per share shall be discounted down according to the split ratio and notwithstanding, the ceiling prices shall be negotiable at the Lender's request. In no case shall the conversion price be less than One Hundredth of One Cent ($0.0001). |
| (9) | The conversion price shall equal the variable conversion price subject to equitable adjustments for stock splits, stock dividends or right offerings by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events. The "Variable Conversion Price" shall mean 90% multiplied by the Market Price (representing a discount rate of 10%).The Market Price means the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. |
| (10) | Upon any conversion of this note, the conversion price up until July 15, 2011 shall be the lesser of $0.20 per share or equal the Variable Conversion Price subject to equitable adjustments for stock splits, stock dividends or right offerings by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events. From July 16, 2011 the conversion price shall equal the variable conversion price. The "Variable Conversion Price" shall mean 90% multiplied by the Market Price (representing a discount rate of 10%); provided, however, that in no event shall the variable conversion price at any time be less than $0.10. |
| (11) | Upon any conversion of this Note, the conversion price up until August 15, 2011 shall be $0.20 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 16, 2011until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of The Market Price which is the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date and that in no event shall the variable conversion price at any time be less than $0.10. |
| (12) | Upon any conversion of this Note, the conversion price up until August 15, 2011 shall be $0.05 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 16, 2011until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of The Market Price which is the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date and that in no event shall the variable conversion price at any time be less than $0.10. |
| (13) | Upon any conversion of this Note, the conversion price up until August 15, 2011 shall be $0.05 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 16, 2011until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of The Market Price which is the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date and that in no event shall the variable conversion price at any time be less than $0.10. The Company has issued 2,700,000 warrants as interest and penalty. The three (3) year warrants were valued using the Black–Scholes method at $0.0175 per share, assuming a fair value per share of $0.07, risk-free interest rate of 0.93% and 138.90% volatility index. |
| (14) | The conversion price shall equal the Variable Conversion Price subject to equitable adjustments for stock splits, stock dividends or right offerings by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events. The "Variable Conversion Price" shall mean 55% multiplied by the Market Price. The Market Price means the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. |
| (15) | Upon any conversion of this Note, the conversion price up until August 15, 2011 shall be $0.05 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 16, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of The Market Price means the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date and that in no event shall the variable conversion price at any time be less than $0.10. The Company issued 275,000 three (3) year warrants with an exercise price of $0.10 per share valued using the Black–Scholes method at $0.0784 per share, assuming a fair value per share of $0.10, risk-free interest rate of 0.91% and 142.07% volatility index. |
| (16) | Upon any conversion of this Note, the conversion price up until July 15, 2011 shall be $0.05 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From July 16, 2011until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 60% of the Market Price means the average of the lowest (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. |
| (17) | The note holder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. From August 12, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 55% of the average closing price for the Common Stock during the five (5) Trading Day period ending on the latest complete Trading Day prior to the |

Conversion Date.

(18) The noteholder has the option to exchange the amount outstanding into the shares of the Company’s common stock at a conversion price of $0.02 per share until maturity.

**Note 12 – Convertible Promissory Notes (continued)**

**Table 2 (continued)**

***References Table 2 (continued)***

| | |
|---|---|
| (19) | The note holder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. From August 12, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 50% of the average closing price for the Common Stock during the five (5) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. |
| (20) | Upon any conversion of this Note, the conversion price up until October 15, 2011 for $12,000 of the note and up until November 1, 2011 for $5,000 the conversion price shall be $0.015 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From October 16, 2011 for $12,000 of the note and up until November 2, 2011 for $5,000 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date provided, however, that in no event shall the Variable Conversion Price at anytime be less than Ten Cents per share ($0.10). |
| (21) | Upon any conversion of this note, the conversion price up until November 1, 2011 shall be $0.015 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From November 2, 2011, until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date provided, however, that in no event shall the Variable Conversion Price at anytime be less than Ten Cents per share ($0.10). |
| (22) | Upon any conversion of this note, the conversion price up until October 15, 2011 shall be $0.015 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From October 16, 2011, until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date provided, however, that in no event shall the Variable Conversion Price at anytime be less than Ten Cents per share ($0.10). On October 12, 2011, the noteholder #40 and #42 entered into an amendment that modified the conversion dates by deleting October 15, 2011 and replacing it with February 15, 2012 and by deleting October 16, 2011 and replacing it with February 16, 2012. |
| (23) | Upon any conversion of this Note, the conversion price up until August 15, 2011 shall be $0.03 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 16, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing price for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date, however, that in no event shall the Variable Conversion Price at anytime be less than Ten Cents per share ($0.10). |
| (24) | Upon any conversion of this Note, the conversion price up until August 4, 2011 shall be $0.015 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From August 5, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing price for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date, however, that in no event shall the Variable Conversion Price at anytime be less than Ten Cents per share ($0.10). |
| (25) | Upon any conversion of this note, from October 5, 2011 until maturity date the conversion price will be equal the Variable Conversion Price (the "VCP"). The VCP shall mean 60% of the average closing price during the ten (10) trading day period ending on the latest complete trading date prior the conversion date. In no event shall the VCP at any time be less than one cent per share ($0.01). Market price means the average of the lowest 3 trading prices during the 10 day trading period. |
| (26) | Upon any conversion of this note, up until December 15, 2012 the conversion price is fixed at $0.012. From December 16, 2011 until maturity the conversion price will be equal to the Variable Conversion Price ("the VCP"). The VCP shall mean 90% of the average closing price during the ten (10) day trading period and not to be less than five cents per share ($.05 floor). Market price means the average of the three lowest trading prices on the latest complete trading prior to conversion date. In connection with the note, the Company issued to the noteholder a 800,000, four (4) year warrants, par value of $0.00001 per share, at an exercise price of $0.05 per share. The fair value of the warrants was estimated at the date of grant using the Black-Scholes option-pricing model with the following range of assumptions: risk-free interest rate of 0.88%, dividend yield of 0.0%, volatility factor of 139.70% and expected life of four (4) years). |
| (27) | Upon any conversion of this note, up until December 15, 2012 the conversion price is fixed at $0.02. From December 16, 2011 until maturity the conversion price will be equal to the Variable Conversion Price ("the VCP"). The VCP shall mean 90% of the average closing price during the ten (10) day trading period and not to be less than ten cents per share ($.10 floor). Market price means the average of the three lowest trading prices on the latest complete trading prior to conversion date. |
| | Upon any conversion of this note, the holder of this note can convert at a 45% discount from the lowest trading price in the three trading days prior to the day that the holder requests conversion. The holder may not convert the note into common stock if the market price is |

(28) below $0.011 (the "initial floor price"). If the stock does not close above the initial floor price for three (3) consecutive days in the fifteen (15) days following the date of the sub-floor trade, the floor will be amended to $0.0055 (the amended floor price).

(29) Upon any conversion of this note, from October 13, 2011 until maturity date the conversion price will be equal the Variable Conversion Price (the "VCP"). The VCP shall mean 50% of the average closing price during the three (3) trading day period ending on the latest complete trading date prior the conversion date.

(30) Upon any conversion of this note, from September 26, 2011 until maturity date, the conversion price will equal the Variable Conversion Price (the "VCP"). The VCP shall mean 50% of the average closing price during the five (5) trading day period ending on the latest complete trading day prior to the conversion date.

**Note 12 – Convertible Promissory Notes (continued)**

**Table 2 (continued)**

***References Table 2 (continued)***

(31) Upon any conversion of this note, from November 12, 2011 and December 31, 2011, the conversion price is fixed at $0.012 per share. From January 1, 2012 until maturity date the conversion price will equal the Variable Conversion Price (the "VCP"). The VCP shall mean 50% of the average lowest closing price during the three (3) trading day period during the ten (10) trading days ending on the latest complete trading date prior the conversion date.

(32) If payment of the promissory note is not made by maturity date, the holder of the note has the right to convert the $70,000 into 350,000 shares of common stock, valued at $0.20 per share and receive 700,000 six (3) year warrants exercisable at $0.25 per share.

(33) Upon any conversion of this note, the conversion price up until December 15, 2011 shall be $0.012 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From December 16, 2011 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing price for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date, provided, however, that in no event shall the variable conversion price at any time be less than $0.05. On December 12, 2011, the noteholder entered into an amendment that modified the conversion dates by deleting December 15, 2011 and replacing it with February 15, 2012 and by deleting December 16, 2011 and replacing it with February 16, 2012.

(34) Upon any conversion of this note, up until January 15, 2012 the conversion price is fixed at $0.012. From January 16, 2012 until maturity the conversion price will be equal to the Variable Conversion Price ("the VCP"). The VCP shall mean 90% of the average closing price during the ten (10) day trading period and not to be less than five cents per share ($.05 floor). Market price means the average of the three lowest trading prices on the latest complete trading prior to conversion date. On December 12, 2011, the noteholder entered into an amendment that modified the conversion dates by deleting January 15, 2012 and replacing it with March 15, 2012 and by deleting January 16, 2012 and replacing it with March 16, 2012.

(35) Upon any conversion of this note, the holder of this note can convert at a 45% discount from the lowest trading price in the three trading days prior to the day that the holder requests conversion. The holder may not convert the note into common stock if the market price is below $0.011 (the "initial floor price"). If the stock does not close above the initial floor price for three (3) consecutive days in the fifteen (15) days following the date of the sub-floor trade, the floor will be amended to $0.0055 (the amended floor price).

**Table 3**

***Non-Related Party:***

| | | | | Value | | | | Derivative Liability | |
|---|---|---|---|---|---|---|---|---|---|
| **Note #** | **Ref #** | **Initial Fair Value** | **Ref #** | **Previous** | **Ref #** | **Current** | **Gain (Loss)** | **11/30/11** | **2/28/11** |
| 4 | (1) | $ 13,926 | (10) | $ 2,908 | (12) | $ 4,262 | $ (1,354) | $ 4,262 | -0- |
| 9 | (19) | 109,660 | | -0- | | -0- | -0- | -0- | 135,348 |
| 13 | (2) | 19,393 | | -0- | | -0- | -0- | -0- | -0- |
| 17 | (3) | 2,092,878 | (11) | 1,019,146 | (13) | 72,277 | 946,869 | 72,277 | -0- |
| 19 | (3) | 100,624 | (11) | 118,238 | (13) | 72,277 | 45,961 | 72,277 | -0- |
| 25 | (4) | 60,000 | (10) | 99,680 | (14) | 69,392 | 30,288 | 69,392 | -0- |
| 29 | (5) | 41,677 | (10) | 36,298 | (15) | 39,455 | (3,157) | 39,455 | -0- |
| 35 | (6) | 42,361 | (10) | 47,481 | (15) | 14,408 | 33,073 | 14,408 | -0- |
| 53 | (7) | 100,000 | | -0- | (16) | 70,477 | 29,523 | 70,477 | -0- |
| 54 | (8) | 75,000 | | -0- | | -0- | 75,000 | -0- | -0- |
| 56 | (7) | 50,000 | | -0- | (16) | 70,641 | (20,641) | 70,641 | -0- |
| | | 2,705,519 | | 1,323,751 | | 413,189 | 1,135,562 | 413,189 | 135,348 |
| Preferred Series A (9) | | 538,328 | (17) | 65,906 | (18) | 70,075 | (4,169) | 70,075 | 538,328 |
| Totals | | $ 3,243,847 | | $ 1,389,657 | | $ 483,264 | $ 1,131,393 | $ 483,264 | $ 673,676 |

**Note 12 – Convertible Promissory Notes (continued)**

**Table 3 (continued)**

***References Table 3***

(1) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 151.71%; (c) risk-free interest rate of 0.27%; (d) expected life of one year.

(2) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 130.92%; (c) risk-free interest rate of 0.22%; (d) expected life of one year.

(3) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 133.43%; (c) risk-free interest rate of 0.24%; (d) expected life of one year.

(4) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 141.22%; (c) risk-free interest rate of 0.18%; (d) expected life of one year.

(5) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 147.94%; (c) risk-free interest rate of 0.18%; (d) expected life of one year.

(6) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 312.80%; (c) risk-free interest rate of 0.10%; (d) expected life of one year.

(7) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 389.82%; (c) risk-free interest rate of 0.11%; (d) expected life of one year.

(8) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 378.26%; (c) risk-free interest rate of 0.10%; (d) expected life of one year.

(9) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 130.00%; (c) risk-free interest rate of 0.69%; (d) expected life of two years.

(10) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 312.80%; (c) risk-free interest rate of 0.10%; (d) expected life of one year.

(11) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 207.38%; (c) risk-free interest rate of 0.10%; (d) expected life of one year.

(12) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 280.79%; (c) risk-free interest rate of 0.01%; (d) expected life of 1.4 months.

(13) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 609.34%; (c) risk-free interest rate of 0.06%; (d) expected life of 5 months.

(14) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 688.62%; (c) risk-free interest rate of 0.03%; (d) expected life of 4 months.

(15) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 558.05%; (c) risk-free interest rate of 0.03%; (d) expected life of 6 months.

(16) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 428.03%; (c) risk-free interest rate of 0.12%; (d) expected life of one year.

(17) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 136.15%; (c) risk-free interest rate of 0.20%; (d) expected life of two years.

(18) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 291.03%; (c) risk-free interest rate of 0.25%; (d) expected life of two years.

(19) Black-Scholes option pricing model assumptions: (a) dividend yield of 0.0%; (b) expected volatility of 122.61%; (c) risk-free interest rate of 0.27%; (d) expected life of one year.

**Note 13 – Stockholders' Deficit**

***Preferred Stock***

The aggregate number of shares of Preferred Stock that the Corporation is authorized to issue is up to One Hundred Million (100,000,000), with a par value of $0.01 per share.

The Preferred Stock may be divided into and issued in series. The Board of Directors of the Corporation is authorized to divide the authorized shares of Preferred Stock into one or more series, each of which shall be so designated as to distinguish the shares thereof from the shares of all other series and classes. The Board of Directors of the Corporation is authorized, within any limitations prescribed by law and this Article, to fix and determine the designations, rights, qualifications, preferences, limitations and terms of the shares of any series of Preferred Stock.

The Company has authorized 3,000,000 shares, par value $.01 per share and designated as Series A 10% Cumulative Convertible Preferred Stock (the "Series A Preferred Stock"). The holders of record of shares of Series A Preferred Stock shall be entitled to vote on all matters submitted to a vote of the shareholders of the Corporation and shall be entitled to one hundred (100) votes for each share of Series A Preferred Stock. The Company had 809,611 and 663,243 shares issued and outstanding as of November 30, 2011 and 2010, respectively.

Per the terms of the Amended and Restated Certificate of Designations, subject to the availability of authorized and unissued shares of Series A Preferred Stock, the holders of Series A Preferred Stock may, by written notice to the Corporation, may elect to convert all or any part of such holder's shares of Series A Preferred Stock into Common Stock at a conversion rate of the lower of (a) $0.50 per share or (b) at the lowest price the Company has issued stock as part of a financing. Additionally, the holders of Series A Preferred Stock, may by written notice to the Corporation, convert all or part of such holder's shares (excluding any shares issued pursuant to conversion of unpaid dividends) into debt obligations of the Corporation, secured by a security interest in the entire Corporation and its' subsidiaries, at a rate of $0.50 of debt for each share of Series A Preferred Stock.

In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary (any of the foregoing, a "liquidation"), holders of Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of the Common Stock or any other series of Preferred Stock by reason of their ownership thereof an amount per share equal to $1.00 for each share (as adjusted for any stock dividends, combinations or splits with respect to such shares) of Series A Preferred Stock held by each such holder, plus the amount of accrued and unpaid dividends thereon (whether or not declared) from the beginning of the dividend period in which the liquidation occurred to the date of liquidation.

During the nine months ended November 30, 2011, the Company converted 80,000 shares of Series A Preferred Stock plus accrued but unpaid dividends on arrears on Series A Preferred stock, at the request of the holder, into 436,600 shares of common stock valued at $8,120. The Company also issued 226,368 shares of Preferred Series A stock in lieu of dividend in arrears valued at $113,184. Dividends in arrears on the outstanding preferred shares as of November 30, 2011 and 2010 are $-0- and $19,113, respectively.

Accounting Standards Codification subtopic 815-40, Derivatives and Hedging; Contracts in Entity's own Equity ("ASC 815-40") became effective for us on March 1, 2010. The Company's Series A (convertible) Preferred Stock has certain reset provisions that require the Company to reduce the conversion price of the Series A (convertible) Preferred Stock if we issue equity at a price less than the conversion price. Upon the effective date, the provisions of ASC 815-40 required a reclassification to liability based on the reset feature of the agreements if the Company sells equity at a price below the conversion price of the Series A Preferred Stock.

Therefore, in accordance with ASC 815-40, we determined the fair value of the Preferred Series A stock to be $70,075, using the Black-Scholes formula assuming no dividends, a risk-free interest rate of 0.25%, expected volatility of 291.03%, and expected life of 2 years (based on the current rate of conversion), previously valued at $65,906 resulting in a loss in the change in the fair value of $4,169 during the three (3) month period ended November 30, 2011. Changes in fair value are recorded as non-operating, non-cash income or expense at each reporting date.

The Company has authorized 3,000,000 shares of Series B 10% Cumulative Convertible Preferred Stock consisting of 3,000,000 shares (the "Series B Preferred Stock"). The holders of record of shares of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the shareholders of the Corporation and shall be entitled to one hundred (100) votes for each share of Series B Preferred Stock. Preferred stockholders may elect to convert all or any part of such holder's shares into Common Stock at a conversion formula of the greater of (i.e. whichever formula yields the greater number of shares of Common Stock upon conversion): (1) twelve and one-half (12.5) shares of Common Stock for each share of Series B Preferred Stock converted or (2) the number of shares of Series B Preferred Stock being converted multiplied by a fraction, the numerator of which is $1.00 and the denominator of which is 80% of the lower of (a) the lowest price at which the Company issued a share of Common Stock on or after January 1, 2006 up to the date of such conversion or (b) the lowest market price of a share of Common Stock up to the date of such conversion.

In the event of any liquidation, dissolution or winding up of this Corporation, either voluntary or involuntary (any of the foregoing, a "liquidation"), holders of Series B Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this Corporation to the holders of the Common Stock or any other series of Preferred Stock by reason of their ownership thereof an amount per share equal to $1.00 for each share (as adjusted for any stock dividends, combinations or splits with respect to such shares) of Series B Preferred

**Note 13 – Stockholders' Deficit (continued)**
***Preferred Stock (continued)***

Stock held by each such holder, plus the amount of accrued and unpaid dividends thereon (whether or not declared) from the beginning of the dividend period in which the liquidation occurred to the date of liquidation.

There were no Series B Preferred shares issued and outstanding at November 30, 2011.

The Company has authorized 1,750,000 shares of Series C Senior Preferred Stock ("Series C Preferred Stock"). Each share of Series C Preferred Stock is convertible into one hundred (100) shares of the Company's Common Stock. Holders of the Series C Preferred Stock shall be entitled to no votes for each share of Series C Preferred Stock held.

There were no Series C Preferred shares issued and outstanding at November 30, 2011.

***Common Stock***

On October 28, 2011, our board of directors and the holders of a majority of the voting power of our shareholders have approved an amendment to our articles of incorporation to increase our authorized shares of Common Stock from 200,000,000 to 500,000,000. The increase in our authorized shares of Common Stock became effective upon the filing of the amendment to our articles of incorporation with the Secretary of State of the State of Nevada.

During the nine months ended November 30, 2011, the Company issued 1,250,000 shares of common stock at a purchase price of $0.20 per share, for an aggregate purchase price of $250,000. Additionally, the Company issued to these Investors three year warrants to purchase 2,500,000 shares of the Company's common stock at an exercise price of $0.25 per share.

During the nine months ended November 30, 2011, the Company issued 650,000 shares of common stock at a purchase price of $0.10 per share, for an aggregate purchase price of $65,000. Additionally, the Company issued to these Investors three year warrants to purchase 1,300,000 shares of the Company's common stock at an exercise price of $0.15 per share.

During the nine months ended November 30, 2011, the Company issued 450,000 shares of common stock at a purchase price of $0.075 per share, for an aggregate purchase price of $33,750. Additionally, the Company issued to these Investors three year warrants to purchase 900,000 shares of the Company's common stock at an exercise price of $0.15 per share.

During the nine months ended November 30, 2011, the Company issued 32,385,817 shares of common stock and 18,323,330 warrants in exchange for services rendered, consisting of financing and consulting fees incurred in raising capital, valued at approximately $1,071,792. The value of the common stock issued was based on the fair value of the stock at the time of issuance or the fair value of the services provided, whichever was more readily determinable. The value of the warrants was estimated at date of grant using Black-Scholes option pricing model with the following assumptions: risk free interest rate between 0.10% and 1.45%, dividend yield of -0-%, volatility factor of 132.88% and 445.49% and expected life of 1 to 5 years.

During the nine months ended November 30, 2011, the Company entered into warrant exchange agreement hereby cancelling 2,150,000 warrants and issuing 1,750,000 shares of common stock and incurred an additional expense of $220,816. Additionally, during the nine months ended November 30, 2011, 13,433 warrants expired and the Company entered into warrant modification agreements with various investors and incurred an additional expense of $85,133.

During the nine months ended November 30, 2011, the Company converted a series of bridge loans and promissory notes and issued 69,925,861 shares of the Company's common stock and 13,064,032 three (3) year warrants to purchase shares of the Company's common stock, par value $0.00001 per share, at an exercise price between $0.05 and $0.25 per share valued at $3,418,912.

During the nine months ended November 30, 2011, the Company issued 450,000 shares of the Company stock, valued at $225,000; the Company issued 3,600,000 three (3) year warrants with an exercise price of $0.25 per share valued at $500,000; the Company issued 275,000 three (3) year warrants with an exercise price of $0.10 per share valued at $46,000;the Company issued 3,500,000 three (3) year warrants to purchase shares of the Company's common stock with an exercise price of $0.50 per share valued at $213,250. The Company incurred these transactions, plus $1,585,587 in beneficial conversion costs, in association with the issuance of convertible promissory notes. Additionally, the Company increased its share reserves, in accordance to agreements, by 5,460,187 shares.

**Note 13 – Stockholders' Deficit (continued)**

***Common Stock (continued)***

During the nine months ended November 30, 2011, the Company consummated a series of transactions with a former Board Member. The Company entered into an agreement terminating an original promissory note dated January 25, 2010. In satisfaction of the $925,000 due on the outstanding promissory note the Company: entered into a one year, six (6%) convertible promissory note maturing on April 6, 2012 in the amount of $500,000 which can be converted into shares of the Company's common stock at a per share price of $0.20 (at the option of the noteholder), plus the Company issued to the noteholder 3,600,000 two (2) year warrants, at an exercise prices of $0.25 per share; the Company issued 2,250,000 of which 2,125,000 shares valued at $425,000 were applied in satisfaction of the remaining principal balance. The remaining 125,000 shares valued at $25,000 were issued to the former board member in satisfaction of a remaining balance due from the board member's daughter's investment in the Company also transacted in during the nine months ended November 30, 2011. The former board member also exercised 1,050,000 warrants into shares of the Company's common stock in a cashless transaction.

During the nine months ended November 30, 2011, the Company issued 60,000 shares valued at $15,000 to an employee for services rendered.

During the nine months ended November 30, 2011, the Company issued 1,012,250 ten (10) year stock options with an exercise price of $.0145 to employees, directors and executives and incurred $10,125 in compensation costs.

During the nine months ended November 30, 2011, the Company issued 435,096 shares of common stock in exchange for settlement of accounts payable valued at $42,791 per a settlement agreement with various service providers. The value of the common stock issued was based on the fair value of the stock at the time of issuance.

During the nine months ended November 30, 2011, the Company issued 226,368 shares of preferred stock to an executive/shareholder of the Company valued at consisting of $75,679 in preferred stock dividends and $37,505 subscription, totaling $113,184.

During the nine months ended November 30, 2011, the Company converted 80,000 shares of Series A Preferred Stock plus accrued but unpaid dividends on arrears on Series A Preferred stock, at the request of the holder, into 436,600 shares of common stock valued at $ 8,120.

On June 3, 2011, the Company entered into an Asset Purchase Agreement with Omniverse, a sole proprietorship, New Media Buys, a sole proprietorship, and Jason M. DeMeo, individually where the Company purchased certain specified assets in exchange for the issuance of 3,000,000 shares of the Company's restricted common stock, par value $0.00001 per share. In addition, the Company entered into an employment agreement with Jason M. DeMeo, individually, pursuant to which Mr. DeMeo will serve as the Company's Senior Vice President of Network Operations. On August 30, 2011, the Company terminated the Asset Purchase Agreements and the 3,000,000 shares of the Company's restricted common stock were returned and cancelled.

***Common Stock Warrants***

At November 30, 2011, there were 75,398,291 warrants outstanding with a weighted average exercise price of $0.42 and weighted average life of 1.9 years. During the nine months ended November 30, 2011, 16,462,792 warrants were exercised, modified or expired.

***Treasury Stock***

During the nine months ended November 30, 2011, the Company's Board of Directors authorized the re-issuance of 157,500 shares of Treasury Stock as a fee for a consulting agreement at a cost of $125,786. The Company has adopted the cost method of recording treasury stock and records the amounts paid to repurchase stock as an increase to treasury stock with no distinction made between the par value of the stock and the premium paid by the Company and is presented on the balance sheet as a reduction in stockholder's equity.

**Note 14 - Commitments and Contingencies**

The Company currently has agreements in place with a major cable provider to carry the N1N TV network. The agreement became effective in December 2011 and was for a term of one year. It requires the Company to pay carriage fees of approximately $75,000 per week. The Company is heavily reliant on this provider in order to continue broadcasting and was important for the Company's ability to generate revenues.

The Company also has agreements in place with service providers which are primarily the cost of processing media for the network. These agreements vary in length but pose a future commitment on the part of the Company.

The Company leases approximately 6,500 square feet of office space in Weston, Florida pursuant to a lease agreement, with Bednar Farms, Inc. of the building located at 2690 Weston Road, Weston, Florida 33331. In accordance with the terms of the lease agreement, the Company is renting the commercial office space, for a term of five years commencing January 1, 2011 through December 31, 2015. The rent for the nine months ended November 30, 2011 was $79,000.

**Note 14 - Commitments and Contingencies (continued)**

The following schedule represents obligations under written commitments on the part of the Company that are not included in liabilities:

| | Current | Long-Term | | |
|---|---|---|---|---|
| | FY2012 | FY2013 | FY2014 | Totals |
| Carriage Fees | $ 992,000 | $ 3,946,000 | $ 319,000 | $ 5,257,000 |
| Consulting | 37,000 | 85,000 | - | 122,000 |
| Leases | 57,000 | 197,000 | 395,000 | 649,000 |
| Other | 35,000 | 13,000 | - | 48,000 |
| Totals | $ 1,121,000 | $ 4,241,000 | $ 714,000 | $ 6,076,000 |

***Legal Matters***

We are otherwise involved, from time to time, in litigation, other legal claims and proceedings involving matters associated with or incidental to our business, including, among other things, matters involving breach of contract claims, intellectual property and other related claims employment issues, and vendor matters. We believe that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. However, our assessment of the current litigation or other legal claims could change in light of the discovery of facts not presently known to us or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

There is currently a case pending whereby the Company's Chief Executive Officer ("defendant") is being sued for allegedly breaching a contract which he signed in his role as CEO of Extraordinary Vacations Group, Inc. The case is being strongly contested. The defendant's motion to dismiss plaintiff's amended complaint with prejudice has been argued before the judge in the case. We are awaiting a ruling at this time.

The Company had a significant accounts payable balance with one vendor that was forgiven in a legal settlement during the nine months ended November 30, 2011 and will not require any financial payment. Accordingly, we opted to use the cost approach as our valuation technique to measure the fair value of this outstanding past due amount. The income recorded during nine months ended November 30, 2011 is $1,314,420 and is recorded as gain on legal settlement on our Consolidated Statement of Operations.

***Other Matters***

In December 2005, the Company acquired Maupintour, LLC. On March 1, 2007, the Company sold Maupintour LLC to an unrelated third party for the sum of $1.00 and the assumption of $900,000 of Maupintour debts. In October 2007, the Company was advised that purchaser had been unable to raise the required capital it had agreed to under the negotiated purchase agreement and was exercising its right to rescind the purchase. Extraordinary Vacations agreed to fund all passengers travel and moved to wind down the corporation. As part of the wind down of Maupintour LLC, the Company created Maupintour Extraordinary Vacations, Inc. on December 14, 2007 under which certain assets and liabilities of Maupintour LLC were assumed in order to allow for customer travel and certain past obligations of Maupintour LLC to be met. Management estimates that there is approximately $420,000 in potential liabilities and has recorded an accrual in other current liabilities at November 30, 2011.

As of November 30, 2011, management believes that very few of the contingent liabilities will be realized.

**Note 15 – Segment Reporting**

Accounting Standards Codification 280-16 "Segment Reporting", established standards for reporting information about operating segments in annual consolidated financial statements and required selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products, services, and geographic areas. Operating segments are defined as components of the enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company has two reportable operating segments: Media and Travel. The accounting policies of each segment are the same as those described in the summary of significant accounting policies. Each segment has its own product manager but the overall operations are managed and evaluated by the Company's chief operating decision makers for the purpose of allocating the Company's resources. The Company also has a corporate headquarters function which does not meet the criteria of a reportable operating segment. Interest expense and corporate expenses are not allocated to the operating segments.

The tables below present information about reportable segments for the nine months ended November 30, 2011 and November 30, 2010:

| | For the three months ended November 30, | | For the nine months ended November 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Media | $ 270,482 | $ 375,102 | $ 416,013 | $ 1,086,643 |
| Travel | 140,187 | 198,024 | 689,071 | 839,730 |
| Segment revenues | $ 410,669 | $ 573,126 | $ 1,105,084 | $ 1,926,373 |
| | | | | |
| Operating expense: | | | | |
| Media | $ 122,154 | $ 2,670,738 | $ 1,404,581 | $ 6,199,530 |
| Travel | 1,031,248 | 24,673 | 2,326,046 | 143,455 |
| Segment expense | $ 1,153,402 | $ 2,695,411 | $ 3,730,627 | $ 6,342,985 |
| | | | | |
| Net income (loss): | | | | |
| Media | $ 148,328 | $ (2,295,636) | $ (988,568) | $ (5,112,887) |
| Travel | (891,061) | 173,351 | (1,636,975) | 696,275 |
| Segment net loss | $ (742,733) | $ (2,122,285) | $ (2,625,543) | $ (4,416,612) |

The Company did not generate any revenue outside the United States for the nine months ended November 30, 2011 and November 30, 2010, and the Company did not have any assets located outside the United States.

**Note 16 – Fair Value Measurements**

The Company's adopted new guidance under ASC Topic 820, effective January 1, 2009. New authoritative accounting guidance (ASC Topic 820-10-15) under ASC Topic 820, Fair Value Measurements and Disclosures, delayed the effective date of ASC Topic 820-10 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until 2009.

ASC Topic 820 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. Further new authoritative accounting guidance (ASU No. 2009-05) under ASC Topic 820, provides clarification that in circumstances in which a quoted price in an active market for the identical liabilities is not available, a reporting entity is required to measure fair value using one or more of the techniques provided for in this update.

**Note 16 – Fair Value Measurements (continued)**

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets of liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity" and ASC 815,"Derivatives and Hedging."Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

The Company uses Level 2 inputs for its valuation methodology for the warrant derivative liabilities and embedded conversion option liabilities as their fair values were determined by using the Black-Scholes option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

The following table sets forth the liabilities as of November 30, 2011, which is recorded on the balance sheet at fair value on a recurring basis by level within the fair value hierarchy. As required, these are classified based on the lowest level of input that is significant to the fair value measurement:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **Description** | **November 30, 2011** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Series A convertible redeemable preferred stock with reset provisions | $ 70,075 | -0- | -0- | $ 70,075 |
| Derivative liability convertible promissory notes | 413,189 | -0- | 413,189 | -0- |
| Total | $ 483,264 | -0- | $ 413,189 | $ 70,075 |

**Note 17 – Subsequent Events**

In May 2009, the FASB issued accounting guidance now codified as FASC Topic 855, "Subsequent Events," which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASC Topic 855 is effective for interim or fiscal periods ending after June 15, 2009. Accordingly, the Company adopted the provisions of FASC Topic 855 on June 30, 2009. The Company evaluated subsequent events for the period from November 30, 2011, the date of these consolidated financial statements, through January 17, 2011, which represents the date these consolidated financial statements are being filed with the Commission. With respect to this disclosure, the Company has not evaluated subsequent events occurring after January 17, 2011.

During December 2011 and January 2012, the Company issued approximately 700,000 shares of common stock in exchange for services rendered valued at approximately $3,500. The value of the common stock issued was based on the fair value of the stock at the time of issuance or the fair value of the services provided, whichever was more readily determinable.

On January 6, 2012, the Company issued 13,132,140 shares of its common stock in accordance with the anti-dilutions rights provision of a amended and restated conversion of agreement of June 23, 2011 with a related party, valued at $38,803.

During December 2011 and January 2012, the Company converted $650,146 of convertible promissory notes, including accrued interest, and issued 104,646,258 shares of its common stock.

On December 12, 2011, the Company converted a shareholder loan of a $100,000 made on November 30, 2010 into an 8% secured convertible promissory note maturing November 30, 2012. The noteholder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. Upon any conversion of this Note, the conversion price up until May 8, 2012 shall be $0.015 per share. From May 9, 2012 and continuing until payment in full of the outstanding balance, the Conversion Price will equal 90% of the average of the three (3) lowest trading prices for the common stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

On December 6, 2011, the Company signed a 6% secured convertible promissory note in the amount of $200,000, maturing May 31, 2012, replacing a past due note dated January 11, 2011 maturing February 11, 2011 (note #3 – table one in the convertible promissory footnote). The noteholder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. Upon any conversion of this Note, the conversion price up until February 15, 2012 shall be $0.02 per share (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). From February 16, 2012 until maturity the conversion price will equal the "variable conversion price". The variable conversion price shall mean 90% of the average closing price for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date, provided, however, that in no event shall the variable conversion price at any time be less than $0.10. Additionally, the Company issued 10,000,000 1 year warrants with an exercise price of $0.02 per share to the noteholder.

On January 4, 2012, the Company received $100,000 and entered into a 6% secured convertible promissory note maturing on April 15, 2012. The note holder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. Upon any conversion of this Note, conversion price will equal the "variable conversion price" (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). The variable conversion price shall mean 90% of the lowest three (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

On January 9, 2012, the Company received $250,000 and entered into a 12% secured convertible promissory note maturing on March 31, 2012. The note holder shall have the right, from time to time, commencing on the issue date, to convert any part of the outstanding interest or principal amount of this Note into fully paid and non-assessable shares of Common Stock at the Conversion Price. Upon any conversion of this Note, conversion price will equal $0.012 (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities).

On January 4, 2012, a current noteholder assigned $100,000 of its outstanding principal balance, plus $4,250 of accrued interest to a non-related third party investor incurring $10,750 in legal fees. In turn, the Company issued a 6% secured convertible promissory note maturing on December 31, 2012 with a face value of $115,000. Upon any conversion of this Note, conversion price will equal the "variable conversion price" (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). The variable conversion price shall mean 50% of the lowest three (3) Trading Prices for the Common Stock during the seven (7) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

**Note 17 – Subsequent Events (continued)**

On December 1, 2011, a current noteholder assigned $100,000 of its outstanding principal balance to a non-related third party investor. In turn, the Company issued a 6% secured convertible promissory note maturing on October 31, 2012 with a face value of $100,000. Upon any conversion of this Note, conversion price will equal the "variable conversion price" (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities).The variable conversion price shall mean 50% of the lowest three (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

On December 1, 2011, a current noteholder assigned $100,000 of its outstanding principal balance to a non-related third party investor. In turn, the Company issued a 6% secured convertible promissory note maturing on February 28, 2012 with a face value of $100,000. Upon any conversion of this Note, conversion price will equal the "variable conversion price" (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities).The variable conversion price shall mean 50% of the lowest three (3) Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

On December 1, 2011, a current noteholder assigned $150,000 of its outstanding principal balance, plus $6,000 of accrued interest to a non-related third party investor incurring $9,360 in legal fees. In turn, the Company issued a 6% secured convertible promissory note maturing on February 3, 2012 with a face value of $165,360. Upon any conversion of this Note, conversion price will equal the "variable conversion price" (subject to equitable adjustments for stock splits, stock dividends or rights offerings by the Maker relating to the Maker's securities). The variable conversion price shall mean 70% of the lowest Trading Prices for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion date.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward Looking Statements

*This Report contains statements that we believe are, or may be considered to be, "forward-looking statements". All statements other than statements of historical fact included in this Report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "foresee," "project," "anticipate," "believe," "plans," "forecasts," "continue" or "could" or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Report.*

### Overview

Next 1 Interactive, Inc. (the "Company" or "Next 1") is a media based company focusing on two segments; travel and real estate. This has been made possible through acquisitions, the most notable of which was the acquisition of Resort and Residence TV, now the Next 1 Network, ("N1N" or the "Network") in August of 2009. The Company has plans to expand N1N's 24/7 full time lifestyle programming network, as well as the introduction of interactive and transactional capabilities. Additionally, the Network has plans to include two distinct video on demand "channels" called N1N Vacation Travel and N1N Homes TV on Demand supported by websites and call centers. This new model will allow consumers their choice of platforms (TV, web, and mobile) to view and transact in both the travel and real estate arenas. The Company believes this new model will provide multiple sources of revenue, mainly from production, interactive applications, advertising, referral/lead generation fees and commissions due to the Company's existing licenses and expertise in travel and real estate arenas. During our last difficult transition year, the Company saw a dramatic drop in revenues accompanied by significant increases in expenditures to put the model in place.

The N1N Network plans to expand its number of households and deploy both Interactive and Video on Demand capabilities over the next year, allowing Next 1 access to roughly 30 million households in the United States. The N1N Network will be supported by Next 1's digital media relationships and platforms and expertise in the Travel and Real Estate arenas.

In order to accomplish this goal, the Company has and will continue to incur a number of expenditures throughout the balance of the year. In management's view, these expenditures are a key investment to allow the Company to secure a foothold in the new interactive platforms for TV. The acquisition of the N1N Network, as well as the elimination or realignment of non-conforming operations has resulted in both a significant drop in revenue from traditional operations while at the same time showed a marked increase in operational costs. These steps are deemed to be essential by management, as they should reposition the Company's travel and real estate programs to capture potentially very significant new revenue once the N1N Network is launched.

The Company's targeted focus of its TV Network in the Travel and Real Estate industries combined with its Video-On-Demand and Interactive services for both television and the Internet puts the Company in position to address advertisers' evolving need to focus on exploiting video opportunities on multiple platforms with the convergence of internet, television and mobile. The Company has developed and assembled key assets that allow it to provide media and technology solutions for consumers in the Home and Travel arenas across multiple media platforms. These two verticals (Home and Travel) hold significant appeal to advertisers as they continuously remain in the top five advertising spend categories in the North American market. Management believes the steps it is taking now will create a 'clear differentiation' in the cable TV space and provide the Company's shareholders and its clients with a unique and cutting edge solution to both traditional and non-linear platforms to advertise their products.

**Sufficiency of Cash Flows**

Because current cash balances and projected cash generation from operations are not sufficient to meet the Company's cash needs for working capital and capital expenditures, management intends to seek additional equity or obtain additional credit facilities. The sale of additional equity could result in additional dilution to the Company's shareholders. A portion of the Company's cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, the Company evaluates potential acquisitions of such businesses, products or technologies.

**RESULTS OF OPERATIONS**

***Three Months Ended November 30, 2011 Compared to Three Months Ended November 30, 2010***

***Revenues***

Our total revenues decreased 28% to $410,669 for the three months ended November 30, 2011, compared to $573,126 for the three months ended November 30, 2010, a decrease of $162,457. The decrease in revenue occurred due to the diminished television advertising caused by reduced programming and significantly less distribution of the N1N television network mainly attributable to cost limitations.

Revenues from the travel segment decreased 29% to $140,187 for the three months ended November 30, 2011, compared to $198,024 for the three months ended November 30, 2010, a decrease of $57,837. Travel revenue is generated from its luxury tour operation which provides escorted and independent tours worldwide to upscale travelers. The Company directed virtually all of its limited resources to operating the N1N TV network, weakening traditional travel business revenue.

Revenues from advertising decreased 28% to $270,482 for the three months ended November 30, 2011, compared to $375,102 for the three months ended November 30, 2010, a decrease of $104,620. Advertising revenue is generated from the sale of advertising time on N1N TV, including advertisements shown during a program (also known as short-form advertising) and infomercials in which the advertisement is the program itself (also known as long-form advertising). The ability to sell time for commercial announcements and the rates received is primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand for time on our network. Although the N1N TV network continues to be operational, the decrease was a result of the Company eliminating its significant satellite distribution costs which directly reduced advertising revenue.

***Cost of Revenue***

Cost of revenues decreased 71% to $745,732 for three months ended November 30, 2011, compared to $2,588,210 for the three months ended November 30, 2010, a decrease of $1,842,478. The significant decrease in costs was primarily associated with the elimination of the significant satellite distribution costs.

***Operating Expenses***

Our total operating expenses decreased 16% or $533,032 to $2,780,576 for the three months ended November 30, 2011, compared to $3,313,608 for the three months ended November 30, 2010. The decrease was primarily due to a net decrease in amortization of finance fees of $509,840 and amortization of intangibles of $247,692, decrease of salaries and benefits of $134,162 and a decrease in consulting fees of $1,159,492.

***Other Expenses***

Interest expense increased 46% to $288,378 for three months ended November 30, 2011, compared to $197,304 for three months ended November 30, 2010, an increase of $91,074 due primarily to an increase in the convertible promissory notes issued by the Company. The Company recorded a gain of $1,131,393 on the change in fair value of derivative for the three months ended November 30, 2011, compared to $-0- for the three months ended November 30, 2010. The Company recorded a loss on settlement of debt in the amount of $509,035 for the three months ended November 30, 2011, compared to $-0- for the three months ended November 30, 2010, due to the conversion of debt through issuance of shares of stock.

***Net Loss***

We had a net loss of $2,808,560 for the three months ended November 30, 2011, compared to net loss of $5,526,048 for the three months ended November 30, 2010. The decrease in loss from 2010 to 2011 was primarily due to the reduction of cost incurred to operate a television network as well as the amortization and loss on impairment of intangible assets and equity issued in raising capital. The November 30, 2011 net loss also included a $1,007,100 loss on settlement of debt, a gain of $498,065 on forgiveness of debt and a gain on the change in fair value of derivatives in the amount $1,131,393.

***Nine months Ended November 30, 2011 Compared to Nine months Ended November 30, 2010***

***Revenues***

Our total revenues decreased 43% to $1,105,084 for the nine months ended November 30, 2011, compared to $1,926,373 for the nine months ended November 30, 2010, a decrease of $821,289. In addition to the general decrease in travel related revenue due to less marketing and sales efforts, the decrease in television advertising is due to reduced programming and significantly less distribution of the N1N television network due to cost constraints.

Revenues from the travel segment decreased 18% to $689,071 for the nine months ended November 30, 2011, compared to $839,730 for the nine months ended November 30, 2010, a decrease of $150,659. Travel revenue is generated from its luxury tour operation which provides escorted and independent tours worldwide to upscale travelers. The Company directed virtually all of its limited resources to operating the N1N TV network, weakening traditional travel business revenue.

Revenues from advertising decreased 62% to $416,013 for the nine months ended November 30, 2011, compared to $1,086,643 for the nine months ended November 30, 2010, a decrease of $670,630. Advertising revenue is generated from the sale of advertising time on N1N TV, including advertisements shown during a program (also known as short-form advertising) and infomercials in which the advertisement is the program itself (also known as long-form advertising). The ability to sell time for commercial announcements and the rates received is primarily dependent on the size and nature of the audience that the network can deliver to the advertiser as well as overall advertiser demand for time on our network. Although the N1N TV network continues to be operational, the decrease was a result of the Company eliminating its significant satellite distribution costs which directly reduced advertising revenue.

***Cost of Revenue***

Cost of revenues decreased 63% to $2,783,680 for nine months ended November 30, 2011, compared to $7,540,374 for the nine months ended November 30, 2010, a decrease of $4,756,694. The significant decrease in costs was primarily associated with the elimination of the significant satellite distribution costs.

***Operating Expenses***

Our total operating expenses decreased 4% or $382,162 to $8,740,735 for the nine months ended November 30, 2011, compared to $9,122,897 for the nine months ended November 30, 2010. The decrease was primarily due a decrease in: financing fees of $1,911,438, amortization of intangibles of $727,209, payroll and benefits of $248,043, legal and accounting fees of $71,515 and consulting fees of $1,578,760; partially offset by an increase in the amortization of debt discount and interest expense of $4,026,948 and miscellaneous operating expenses of $127,855.

***Other Expenses***

Interest expense increased 163% to $930,786 for nine months ended November 30, 2011, compared to $353,944 for nine months ended November 30, 2010, an increase of $576,842 due primarily to the interest recorded on new debt instruments. Loss on settlement of debt conversion was $1,007,100 for the nine months ended November 30, 2011, compared to $-0- for nine months ended November 30, 2010 due to the settlement of debt through issuance of shares of stock. The Company recorded a gain of $3,129,790 on the change in fair value of derivative for the nine months ended November 30, 2011, compared to $-0- for the nine months ended November 30, 2010. The Company recorded a gain on legal settlement of $1,314,420 for the nine months ended November 30, 2011, wherein a gain in the amount of $4,903,427 was recorded for the nine months ended November 30, 2010, a decrease of $3,589,007. The Company recorded other expense in the amount of $113,535 for the nine months ended November 30, 2011, compared to other income of $5,820 for the nine months ended November 30, 2010, an increase of $119,355 due to the modification of various warrant agreements.

***Net Loss***

Net loss decreased 21% or $2,155,053 to $8,026,542 for the nine months ended November 30, 2011, compared to $10,181,595 for the nine months ended November 30, 2010. The increase in net loss is primarily due to a decrease in total revenue of $658,832, a decrease in cost of revenues of $2,914,216, increase in operating expenses of $150,870 and a decrease of other income/expenses of $2,666,949.

***Contractual Obligations***

The following schedule represents obligations under written commitments on the part of the Company that are not included in liabilities:

| | Current | Long-Term | | |
|---|---|---|---|---|
| | FY2012 | FY2013 | FY 2014 | Totals |
| Carriage Fees | $ 992,000 | $ 3,946,000 | $ 319,000 | $ 5,257,000 |
| Consulting | 37,000 | 85,000 | - | 122,000 |
| Leases | 57,000 | 197,000 | 395,000 | 649,000 |
| Other | 35,000 | 13,000 | - | 48,000 |
| Totals | $ 1,121,000 | $ 4,241,000 | $ 714,000 | $ 6,076,000 |

**Liquidity and Capital Resources**

At November 30, 2011, the Company had $104,661 cash on-hand, a decrease of $315,156 from $419,817 at the start of fiscal 2011. The decrease in cash was due primarily to operating expenses.

Net cash used in operating activities was $4,017,457 for the quarter ended November 30, 2011 a decrease of $4,070,352 from $8,087,809 used during the quarter ended November 30, 2010. This decrease was due to a gain in the change in fair value of derivatives and reduction in operating costs.

Net cash used in investing activities decreased $103,114 to $200,000 for the quarter ended November 30, 2011, compared to $303,114 for the quarter ended November 30, 2010. Investments in web site development and purchase of treasury stock for the quarter ended November 30, 2010 did not occur in the current quarter. The Company did make a payment for an option purchase agreement in the amount of $200,000.

Net cash provided by financing activities decreased $4,344,181 to $3,902,301, for the quarter ended November 30, 2011, compared to $8,246,482 for the quarter ended November 30, 2010. This decrease was primarily due to the net increase of $2,161,200 in convertible promissory notes, a net decrease of $4,001,546 of other notes payable, and a decrease in the proceeds from the sale of equity investments in the amount of $2,503,835.

The growth and development of our business will require a significant amount of additional working capital. We currently have limited financial resources and based on our current operating plan, we will need to raise additional capital in order to continue as a going concern. We currently do not have adequate cash to meet our short or long term objectives. In the event additional capital is raised, it may have a dilutive effect on our existing stockholders.

Since our inception in June 2002, we have been focused on the travel industry solely through the Internet. We have recently changed our business model from a company that generates nearly all revenues from its travel divisions to a media company focusing on travel and real estate by utilizing multiple media platforms including the Internet, radio and television. As a company that has recently changed our business model and emerged from the development phase with a limited operating history, we are subject to all the substantial risks inherent in the development of a new business enterprise within an extremely competitive industry. We cannot assure you that the business will continue as a going concern or ever achieve profitability. Due to the absence of an operating history under the new business model and the emerging nature of the markets in which we compete, we anticipate operating losses until such time as we can successfully implement our business strategy, which includes all associated revenue streams.

Since our inception, we have financed our operations through numerous debt and equity issuances. The Company will need to raise substantial additional capital to support the on-going operation and increased market penetration of N1NTV including the development of national sales representation for national and global advertising and sponsorships, increases in operating costs resulting from additional staff and office space until such time as we generate revenues sufficient to support the business. We believe that in the aggregate, we will need approximately $1 million to $5 million to support and expand the network reach, repay debt obligations, provide capital expenditures for additional equipment and satisfy payment obligations under carriage/distribution agreements, office space and systems required to manage the business, and cover other operating costs until our planned revenue streams from media advertising, sponsorships, e-commerce, travel and real estate are fully-implemented and begin to offset our operating costs. There can be no assurances that the Company will be successful in raising the required capital to complete this portion of its business plan.

To date, we have funded our operations with the proceeds from the private equity financings. The Company issued these shares without registration under the Securities Act of 1933, as amended, afforded the Company under Section 4(2) promulgated there under due to the fact that the issuance did not involve a public offering of securities. The shares were sold solely to “accredited investors” as that term is defined in the Securities Act of 1933, as amended, and pursuant to the exemptions from the registration requirements of the Securities Act under Section 4(2) and Regulation D there under.

Currently, revenues provide less than 10% of the Company’s cash requirements. The remaining cash need is derived from raising additional capital. The current monthly cash burn rate is approximately $500,000. We expect the monthly cash burn rate will gradually increase to approximately $1.0 million, with the expectation of profitability in fiscal 2013.

Our multi-platform media revenue model is new and evolving, and we cannot be certain that it will be successful. The potential profitability of this business model is unproven and there can be no assurance that we can achieve profitable operations. Our ability to generate revenues depends, among other things, on our ability to operate our television network and create enough viewership to provide advertisers, sponsors, travelers and home buyers value. Accordingly, we cannot assure you that our business model will be successful or that we can sustain revenue growth, or achieve or sustain profitability.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

***Market Risk***

This represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates and market prices. We do not currently have any trading derivatives nor do we expect to have any in the future. We have established policies and internal processes related to the management of market risks, which we use in the normal course of our business operations.

***Intangible Asset Risk***

We have a substantial amount of intangible assets. We are required to perform asset impairment tests whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material changes that could be adverse to our operating results and financial position. Although at November 30, 2011, we believed our intangible assets were recoverable, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. We continue to monitor those assumptions and their effect on the estimated recoverability of our intangible assets.

## Item 4. Controls and Procedures.

*(a) Evaluation of Disclosure Controls and Procedures*

Our Principal Executive Officer and Principal Accounting Officer are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Our Principal Executive Officer and Principal Accounting Officer evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2011. Based on that evaluation, our Principal Executive Officer and Principal Accounting Officer have determined that our disclosure controls and procedures were not effective at the reasonable assurance level due to the lack of an independent audit committee or audit committee financial expert which represents a material weakness as reported in the February 28, 2011, Annual Report on Form 10-K. Due to liquidity issues, we have not been able to immediately take any action to remediate this material weakness. However, when conditions allow, we will expand our board of directors and establish an independent audit committee consisting of a minimum of three individuals with industry experience including a qualified financial expert. Notwithstanding the assessment that our disclosure controls and procedures were not effective and that there was a material weakness as identified herein, we believe that our consolidated financial statements contained herein fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects.

*(b) Changes in Internal Control over Financial Reporting.*

During the quarter ended November 30, 2011, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

**Item 1. Legal Proceedings.**

Other than the litigation matters listed in our Annual Report on Form 10-K for quarter ended February 28, 2011, as filed with the SEC on June 15, 2011, we are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

**Item 1A. Risk Factors.**

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the quarter ended February 28, 2011, filed with the SEC on June 15, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the three months ended November 30, 2011, the Company did not sell any equity securities.

**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of the Principal Executive Officer of Next 1 Interactive, Inc., pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of the Principal Accounting Officer of Next 1 Interactive, Inc., pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of the Principal Executive Officer of Next 1 Interactive, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Principal Accounting Officer of Next 1 Interactive, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | **NEXT 1 INTERACTIVE, INC.** |
|---|---|
| Date: January 23 , 2012 | /s/ *William Kerby* |
| | William Kerby<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: January 23 , 2012 | /s/ *Adam Friedman* |
| | Adam Friedman<br>Chief Financial Officer<br>(Principal Accounting Officer) |

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 302 OF**
**THE SARBANES-OXLEY ACT OF 2002**

I, William Kerby, certify that:

1. I have reviewed this Form 10-Q of Next 1 Interactive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. Along with the Principal Accounting Officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financing reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: January 23 , 2012

By: */s/ William Kerby*
William Kerby
Principal Executive Officer
Next 1 Interactive, Inc.

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Adam Friedman, certify that:

1. I have reviewed this Form 10-Q of Next 1 Interactive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;

4. Along with the Principal Executive Officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 23 , 2012

By: */s/ Adam Friedman*
Adam Friedman
Principal Accounting Officer
Next 1 Interactive, Inc.

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF**
**THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Next 1 Interactive, Inc. (the "Company"), on Form 10-Q for the period ended November 30, 2011, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, William Kerby, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended November 30, 2011, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended November 30, 2011, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 23 , 2012

By: */s/ William Kerby*
William Kerby
Principal Executive Officer
Next 1 Interactive, Inc.

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF**
**THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Next 1 Interactive, Inc. (the "Company"), on Form 10-Q for the period ended November 30, 2011, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Adam Friedman, Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) Such Quarterly Report on Form 10-Q for the period ended November 30, 2011, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Quarterly Report on Form 10-Q for the period ended November 30, 2011, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 23 , 2012

By: */s/ Adam Friedman*
Adam Friedman
Principal Accounting Officer
Next 1 Interactive, Inc.