

Propell Technologies Group, Inc.  
Form 10-Q  
May 20, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10 – Q**

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended: March 31,  
2013**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 000-53488**

**PROPELL TECHNOLOGIES GROUP, INC.**

Edgar Filing: Propell Technologies Group, Inc. - Form 10-Q

(Exact name of registrant as specified in its charter)

**Delaware**

**26-1856569**

**(State or other jurisdiction of incorporation or organization)(IRS Employer Identification Number)**

**1701 Commerce Street, Houston, Texas 77002**

*(Address of principal executive offices including zip code)*

**(713) 227-0480**

*(Registrant's telephone number, including area code)*

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the 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 website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 shell company (as defined in Rule 12b-2 of the Exchange Act).  
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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 134,432,871 shares of common stock, \$.001 par value per share, as of May 17, 2013.



**PROPELL TECHNOLOGIES GROUP, INC.**

**Index**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. Consolidated Financial Statements	
Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012	3
Statements of Operations for the three months ended March 31, 2013 and cumulative from inception (June 19, 2012 to March 31, 2013)	4
Statement of Stockholders' Deficit as of March 31, 2013 (unaudited)	5
Statements of Cash Flows for the three months ended March 31, 2013 and cumulative from inception (June 19, 2012 to March 31, 2013)	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risks	
Item 4. Controls and Procedures	19
<b>PART II. OTHER INFORMATION</b>	20
Item 1. Legal Proceedings	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Defaults Upon Senior Securities	20
Item 4. Mine Safety Disclosures	20

Item 5.	Other Information	20
Item 6.	Exhibits	20

**PART I.—FINANCIAL INFORMATION**

Propell Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets  
(A Development Stage Enterprise)

	March 31, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
Current Assets		
Cash	\$ 21,739	\$ 70
Accounts receivable (net of allowances)	42	-
Prepaid expenses	7,083	-
Total Current Assets	28,864	70
Property and Equipment, net	40,504	-
Other Assets		
Deposits	2,200	-
Website, net	400	-
Total Assets	\$ 71,968	\$ 70
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities		
Accounts payable	\$ 116,765	\$ -
Accrued liabilities	99,346	100
Accrued interest	1,320	-
Notes payable and advances - related parties	3,000	-
Convertible notes payable related parties, net of discount of \$19,000	46,000	-
Liabilities from discontinued operations	1,221,008	-
Total Current Liabilities	1,487,439	100
Long Term Liabilities		
Notes Payable	622,000	-
Convertible notes payable related parties, net of discount of \$1,395,070 and \$0 respectively	104,930	-
Accrued Interest	46,708	-
Total Long Term Liabilities	773,638	-
Total Liabilities	2,261,077	100
Stockholders' Deficit		
	4,313	-

Edgar Filing: Propell Technologies Group, Inc. - Form 10-Q

Preferred stock, \$0.001 par value; 5,000,000 shares authorized, 4,312,500 and 0  
ares issued and outstanding, respectively. (liquidation preference \$345,000 and  
\$0, respectively)

Common stock, \$0.001 par value; 1,000,000,000 shares authorized, 134,432,871 and 100,000,000 shares issued and outstanding, respectively	134,433	100,000		
Additional paid-in capital	229,928	-		
Accumulated deficit	(2,557,783	)	(100,030	)
Total Stockholders' Deficit	(2,189,110	)	(30	)
 Total Liabilities and Stockholders' Deficit	 \$ 71,968	 \$ 70		

See notes to consolidated financial statements

Propell Corporation and Subsidiaries  
Condensed Consolidated Statements of Operations  
(A Development Stage Enterprise)

	Three months ended, March 31, 2013  (unaudited) \$ 2,897	Cumulative from inception (June 19,2012 to March 31,2013) (unaudited) \$ 2,897
Net Revenues		
Cost of Goods Sold	2,880	2,880
Gross Profit	17	17
Research & development	18,052	18,052
Compensation	249,045	249,045
Sales and Marketing	47,443	47,443
Professional Fees	101,456	101,456
General and administrative	534,643	535,568
Total Expense	950,639	951,564
Loss from Operations	(950,622	) (951,547 )
Other Income	3,866	3,866
Debt forgiveness	1,000	1,000
Interest Expense	(35,206	) (35,206 )
Loss before Provision for Income Taxes	(980,962	) (981,887 )
Provision for Income Taxes	-	-
Net Loss	\$ (980,962	) (981,887 )
Net Loss Per Share - Basic and Diluted	\$ (0.02	)
Weighted Average Number of Shares Outstanding - Basic and Diluted	50,586,094	

See notes to consolidated financial statements



Propell  
Corporation  
and  
Subsidiaries  
Condensed  
Consolidated  
Statements of  
Changes in  
Stockholders'  
Deficit  
For the Period  
June 19, 2012  
(Inception) to  
March 31,  
2013  
(Unaudited)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance, Inception June 19, 2012	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Stock Issued (\$0.001 per share)			100,000,000	100,000			100,000
Contributed Capital					895		895
Dividends					(895 )	(99,105 )	(100,000 )
Net loss for year ended December 31, 2012						(925 )	(925 )
Balance, December 31, 2012	-	-	100,000,000	100,000	-	(100,030 )	(30 )
Contributed Capital					37,301		37,301
Recapitalization as a result of the reverse							

Edgar Filing: Propell Technologies Group, Inc. - Form 10-Q

merger on February 4, 2013 with Novas Energy	5,000,000	5,000	27,357,871	27,358		(1,476,791 )	(1,444,433 )
Equity based compensation					195,014		195,014
Conversion of preferred stock	(687,500 )	(688 )	6,875,000	6,875	(6,187 )		-
Issuance of shares for services			200,000	200	3,800		4,000
Net loss for three months ended March 31, 2013		-		-	-	(980,962 )	(980,962 )
Balance, March 31, 2013	4,312,500	\$4,312	134,432,871	\$134,433	\$229,928	\$(2,557,783 )	\$(2,189,110 )

See notes to consolidated financial statements

Propell  
Corporation  
and  
Subsidiaries  
Condensed  
Consolidated  
Statements of  
Cash Flows  
(A  
Development  
Stage  
Enterprise)

Three months ended, March 31, 2013  (unaudited)	Cumulative from inception (June 19,2012 to March 31,2013  (unaudited)
---	---

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss for the year	\$ (980,962 )	\$ (981,887 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	5,300	5,300
Amortization expense	400	400
Amortization of debt discount	68,900	68,900
Stock options issued for services	195,014	195,014
Stock issued for services	4,000	4,000
Changes in Assets and Liabilities		
Accounts receivable	(10 )	(10 )
Prepaid expenses	(18 )	(18 )
Accounts payable	64,890	64,890
Accrued expenses	14,070	14,170
Accrued interest	34,204	34,204
Cash Used in Operating Activities	(594,212 )	(595,037 )

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(6,119 )	(6,119 )
NET CASH USED IN INVESTING ACTIVITIES	(6,119 )	(6,119 )

CASH FLOWS FROM FINANCING ACTIVITIES:

Contributed Capital	-	895
---------------------	---	-----

Edgar Filing: Propell Technologies Group, Inc. - Form 10-Q

Proceeds from notes payable and advances	622,000	622,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	622,000	622,895
NET DECREASE IN CASH	21,669	21,739
CASH AT BEGINNING OF YEAR	70	-
CASH AT END OF PERIOD	\$21,739	\$ 21,739
CASH PAID FOR INTEREST AND TAXES:		
Cash paid for income taxes	\$ 1,500	\$ 1,500
Cash paid for interest	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired in reverse merger	\$2,658	\$ -
Liabilities acquired in reverse merger	\$1,447,091	
Contributed assets	\$37,301	\$ 37,301

See notes to consolidated financial statements

**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**Note 1 Organization and Summary of Significant Accounting Policies**

**(A) Description of the Business**

Propell Technologies Group, Inc. (fka Propell Corporation) (the “Company”), is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (“CMI”), a Florida Corporation, merged with an acquisition subsidiary of Propell’s, and the Company issued an aggregate of 180,000 shares to the former shareholders of CMI. On May 6, 2008, the Company acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) (“AMS”) and Auleron 2005, LLC (d/b/a Auleron Technologies) (“AUL”) and made each a wholly owned subsidiary and issued a total of 41,897 shares of the Company’s common stock to the members of Mountain Capital, LLC and a total of 2,722 shares of the Company’s common stock to the members of AUL. In 2010 AUL and AMS were dissolved and the operations of CMI were discontinued. On February 4, 2013, the Company entered into a Share Exchange Agreement with Novas Energy (USA), Inc. whereby the Company exchanged 100,000,000 shares of its common stock for 100,000,000 shares of common stock in Novas. After the consummation of the share exchange, Novas became a wholly owned subsidiary of the Company. As a result of the share exchange the shareholders of Novas obtained the majority of the outstanding shares of the Company. As such, the exchange is accounted for as a reverse merger or recapitalization of the Company and Novas Energy (USA), Inc. was considered the acquirer for accounting purposes.

**(B) Principles of Consolidation**

All significant inter-company accounts and transactions have been eliminated in consolidation.

**(C) Going Concern**

The Company has negative working capital, has incurred operating losses since inception, and its operating activities to date have required financing from outside institutions and related parties. The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. The Company will continue to need outside financing to support its internal growth.

Management continues to seek funding to pursue its business plans. Such funding may be obtained in the form of debt or equity financing, debt/equity hybrid instruments (i.e., convertible debt) or a combination thereof. As such, the Company could incur additional leverage on its balance sheet and/or significant dilution of the current shareholders. There can be no assurance that the Company will be successful in obtaining the financing or funding necessary to continue as a going concern.

#### **(D) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions impact, among others, the following: the estimated useful lives for property and equipment, the fair value of warrants and stock options granted for services or compensation, estimates of the probability and potential magnitude of contingent liabilities and the valuation allowance for deferred tax assets due to continuing operating losses.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the consolidated financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

#### **(E) Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Revisions to the allowance for doubtful accounts estimates are recorded as an adjustment to bad debt expense. Receivables deemed uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. There were no recoveries during the period ended March 31, 2013.



**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**(F) Revenue Recognition**

The Company records revenue when all of the following have occurred: (1) persuasive evidence of an arrangement exists, (2) the service is completed without further obligation, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured.

**(G) Risks and Uncertainties**

The Company's operations will be subject to significant risk and uncertainties including financial, operational, regulatory and other risks associated, including the potential risk of business failure. The recent global economic crisis has caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These conditions not only limit the Company's access to capital, but also make it difficult for its customers, vendors and the Company to accurately forecast and plan future business activities.

**(H) Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2013 and December 31, 2012, respectively, the Company had no cash equivalents.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At March 31, 2013 and December 31, 2012, the balance did not exceed the federally insured limit.

**(I) Property and Equipment**



Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Items of property and equipment with costs greater than \$1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives, as follows:

Description	Estimated Useful Life
Office equipment and furniture	2 to 5 years
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease

#### **(J) Inventory**

The Company had no inventory as of March 31, 2013 or December 31, 2012.

#### **(K) Long Term Assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**(L) Net Loss per Share**

Basic earnings (loss) per share and diluted earnings (loss) per share are computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding. The Company's share equivalents consist of 11,092,204 and 0 stock options for the periods ended March 31, 2013 and December 31, 2012 respectively. Since the Company reported a net loss for the periods ended March 31, 2013 and December 31, 2012, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

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

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, prepaid expenses, due from others, inventory, deposits, accounts payable, accrued liabilities, accrued interest, notes payable and advances – related parties and convertible notes payable approximate fair value due to the relatively short period to maturity for these instruments.

**(N) Share-Based Payment Arrangements**

Generally, all forms of share-based payments, including stock option grants, restricted stock grants and stock appreciation rights are measured at their fair value on the awards' grant date, based on the estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The expense resulting from share-based payments is recorded in operating expenses in the consolidated statement of operations.

**(O) Income Taxes**

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of

assets and liabilities and are measured using the currently enacted tax rates and laws. A full valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized. It is the Company's policy to classify interest and penalties on income taxes as interest expense or penalties expense. As of March 31, 2013, there have been no interest or penalties incurred on income taxes.

**(P) Recent Accounting Pronouncements**

All new accounting pronouncements issued but not yet effective have been deemed to be immaterial or not applicable.

**Note 2 Prepaid Expenses**

For the period ended March 31, 2013, the Company had prepaid expenses of \$7,083 comprised of \$6,696 of prepaid insurance and \$387 of prepaid cost of goods sold.

For the year ended December 31, 2012, the Company had no prepaid expenses.

**Note 3 Property and Equipment**

Property and Equipment consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Furniture and fixtures	\$27,143	\$ -
Field equipment	16,120	-
Computer and equipment	2,541	-
Total cost	45,804	-
Less: accumulated depreciation	(5,300 )	-
Property and equipment, net	\$40,504	\$ -

Depreciation expense was \$5,300 and \$0 for the period ended March 31, 2013 and the year December 31, 2012, respectively.

**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**Note 4 Accrued Liabilities**

At March 31, 2013 and 2012 accrued expenses consisted of the following:

	March 31, 2013	December, 31 2012
Payroll	\$78,125	\$ -
Taxes	69	-
Other	21,152	100
Total accrued expenses	\$99,346	\$ 100

**Note 5 Notes and Convertible Notes Payable at March 31, 2013 – Related Parties**

	March 31, 2013 Principal Amount	December 31, 2012 Principal Amount
Convertible Notes Payable		
6% convertible notes payable, due November 19, 2017	\$ 1,500,000	\$ -
less debt discount	(1,395,070)	-
Total convertible notes payable, net of discount	\$ 104,930	\$ -

The notes consist of \$1,500,000 of notes to a number of private parties. The notes bear interest at the rate of 6% per annum and are due on November 17, 2017. At March 31, 2013 there remains \$1,500,000 of Exchange Debt outstanding, less an unamortized debt discount of \$1,395,070 leaving a balance of \$104,930.

**Note 6 Notes Payable at March 31, 2013**

Convertible Notes Payable	Principal Amount
8% note payable to Anuta – Related Party	\$500,000
8% note payable to Pansies, LTD	66,000
8% note payable to Pansies, LTD	56,000
	622,000
Accrued Interest	6,843
Total convertible notes payable	\$628,843

The note payable to Anuta in the amount of \$500,000 bears interest at the rate of 8% per annum and matures on February 1, 2016. The Note payable to Pansies, LTD in the amount of \$66,000 bears interest at the rate of 8% per annum and matures on March 5, 2014. The note payable to Pansies, LTD in the amount of \$56,000 bears interest at the rate of 8% per annum and matures on March 22, 2014. The Pansies LTD notes were funded pursuant to a Credit Agreement that allows for loans to be made to Novas up to an aggregate of \$500,000. Each loan under the Credit Agreement bears interest at the rate of 8% per annum and is evidenced by a note which matures one year from the issue date. (See also Footnote 13 – “Subsequent Events” for further discussion of the Credit Agreement).

**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**Note 7 Notes Payable – Discontinued Operations**

The Company's Crystal Magic subsidiary has four (4) notes all of which are either guaranteed or funded by the United States Small Business Administration (SBA). At March 31, 2013, the notes total an aggregate of approximately \$838,542. Crystal Magic is in default on all of these notes. In September 2010, the bank managing the loans for the SBA seized substantially all of the assets of CMI and subsequently sold these assets. In addition, the Company estimates that there are \$382,866 of past due accounts payable at CMI.

**Note 8 Related Party Transactions**

There are convertible notes payable to a related party totaling \$65,000. These notes are unsecured, bear interest at the rate of six percent (6%) per annum and mature on October 31, 2013. The notes are convertible at a conversion price equal to the higher of \$0.05 per share or a 50% discount to the 3-day average closing price of the Company's Common Stock for the three (3) business days immediately preceding the date of a conversion request from a holder. At March 31, 2013 there remains \$65,000 of Notes, less an unamortized debt discount of \$19,000 leaving a balance of \$46,000.

**Note 9 Other Income and Income from Debt Forgiveness**

For the period ended March 31, 2013 the Company had income from debt forgiveness of \$4,866 comprised of (i) \$1000 from a former consultant and (ii) \$3,866 from various Propell customers who did not claim there commissions.

**Note 10 Stockholders' Equity**

**(A) Common Stock Issuances of Issuer for the Year ended March 31, 2013**

On February 4, 2013, the Company entered into a Share Exchange Agreement with Novas Energy (USA) whereby the Company exchanged 100,000,000 shares of its common stock for 100,000,000 shares of common stock in Novas. After the consummation of the share exchange, Novas became a wholly owned subsidiary of Propell and the shareholders of Novas were issued shares of the common stock of Propell representing in the aggregate approximately 56% of the outstanding voting power (including common and preferred shares) of Propell. As of the date of the Share Exchange Agreement, there were no material relationships between the Propell and any of Novas' respective affiliates, directors or officers. The Company intends to carry on its business and the business of Novas. They have an exclusive license to engage in the commercial application of a proprietary "Plasma-Pulse Technology" to enhance the recovery of oil and gas in the United States.

As a result of the Share Exchange Agreement, the principal business of Propell became the business of Novas Energy (USA), Inc. As the shareholders of Novas Energy (USA), Inc. obtained the majority of the outstanding shares of the Company through the acquisition, the acquisition is accounted for as a reverse merger or recapitalization of the Company. As such, Novas Energy (USA), Inc. was considered the acquirer for accounting purposes.

During the first calendar quarter of 2013, the Company issued (i) an aggregate of 25,000,000 shares of its Common Stock to convertible note holders upon conversion of an aggregate of \$500,000 principal amount of notes held by such noteholders (See also Note 5 – "Notes and Convertible Notes Payable at March 31, 2013" for discussion of the conversion of the "Exchange Notes"), (ii) 6,875,000 shares of Common Stock upon conversion of 687,500 shares of Series A-1 Preferred Stock, and (iii) 600,000 shares of its Common Stock as payment for employee and consulting services rendered.



**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

**(B) Series A-1 Convertible Preferred Stock**

The Company has outstanding 4,312,500 shares of the Series A-1 Convertible Preferred Stock (the “Series A-1 Preferred”). The rights, privileges and preferences of the Series A-1 Preferred are as follows; (i) each share of Series A-1 Preferred is convertible into ten (10) shares of Common Stock; (ii) each holder of Series A-1 Preferred is entitled to vote on all matters submitted to a vote of the stockholders of the Company and shall be entitled to that number of votes equal to the number of shares of Common Stock into which such holder’s shares of Series A-1 Preferred could then be converted, (iii) there shall be no adjustment made to the conversion ratio of the Series A-1 Preferred for any stock split, stock dividend, combination, reclassification or other similar event, (iv) the Series A-1 is non-redeemable, (v) upon such time that any dividend is paid to the holders of Common Stock, the holders of Series A-1 Preferred shall be entitled to a dividend in an amount per share equal to that which such holders would have been entitled to receive had they converted all of the shares of Series A-1 Preferred into Common Stock immediately prior to the payment of such dividend, (vi) each share of Series A-1 Preferred is entitled to a liquidation preference of \$.08 per share, and (vii) the approval of the holders of at least 2/3 (66.6%) of the outstanding shares of the Series A-1 Preferred, voting together separately as a class, is required for (a) the merger, sale of all, or substantially all of the assets or intellectual property, recapitalization, or reorganization of the Company, (b) the authorization or issuance of any equity security having any right, preference or priority superior to or on a parity with the series A-1 Preferred, (c) the redemption, repurchase or acquisition of any of the Company’s equity securities or the payment of any dividends or distributions thereon, (d) any amendment or repeal of the Company’s Articles of Incorporation or Bylaws that would have an adverse affect on the rights, preferences or privileges of the Series A-1 Preferred, and (e) the making of any loan or advance to any person except in the ordinary course of business.

During the period ending March 31, 2013, 687,500 shares of the Series A-1 Preferred were converted into 6,875,000 shares of the Company’s Common Stock.

**(C) Stock Option Plan**

The Company’s Board of Directors approved the Company’s 2008 Stock Option Plan (the “Stock Plan”) for the issuance of up to five (5) million shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The

exercise price of stock options under the Stock Plan is determined by the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. At March 31, 2013 and December 31 2012, there were 2,819,386 and 0 options issued and outstanding, respectively, under the Stock Plan. In addition, the Company issued 11,000,000 options to two of its Officers which are not covered under this plan.

In the event of termination, the Company will cease to recognize compensation expense. There is no deferred compensation recorded upon initial grant date, instead, the fair value of the share-based payment is recognized ratably over the stated vesting period.

The Company has applied fair value accounting for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. There is no deferred compensation recorded upon initial grant date, instead, for employees, the fair value of the share-based payment is recognized ratably over the stated vesting period. For consultants, the fair value is recognized as expense immediately. The Company has recorded an expense of \$195,014 and \$0 for the period ended March 31, 2013 and the year ended December 31, 2012, respectively, in G&A other.

The vesting provisions for these agreements have various terms as follows:

- Annually, over one, two or three years
- Monthly, over six months to one year
- Annually, with monthly vesting after the first year, over a total of three or four years
- Immediately, upon grant

**Propell Technologies Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**March 31, 2013 and December 31, 2012**

The options outstanding and exercisable at March 31, 2013 are as follows: