

Propell Technologies Group, Inc.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 – Q

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

For the quarterly period ended: March 31, 2016

“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.

(Exact name of registrant as specified in its charter)

Delaware **26-1856569**
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification Number)

10655 Bammel North Houston Road

Suite 100, Houston, Texas 77086

(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: 268,558,931 shares of common stock, \$.001 par value per share, as of May 13, 2016.

PROPELL TECHNOLOGIES GROUP, INC

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, statements contained in this Quarterly Report Form 10-Q, including but not limited to, statements regarding our intention to be an oil exploration and production acquisition company, the commercialization of our technology; the sufficiency of our cash, our ability to finance our operations and business initiatives and obtain funding for such activities; our future results of operations and financial position, business strategy and plan prospects, or costs and objectives of management for future acquisitions, are forward-looking statements. These forward-looking statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “seeks,” “goals,” “estimates,” “predicts,” “potential” and “continue” or similar words. Readers are cautioned that these forward-looking statements are based on our current beliefs, expectations and assumptions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under Part II, Item 1A. “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016. Therefore, actual results may differ materially and adversely from those expressed, projected or implied in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, “Propell,” the “Company,” “we,” “us” and “our” refer to Propell Technologies Group, Inc.

PROPELL TECHNOLOGIES GROUP, INC.

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Item 1.

PROPELL TECHNOLOGIES GROUP, INC.

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PROPELL TECHNOLOGIES GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 Unaudited	December 31, 2015
Assets		
Current Assets		
Cash	\$10,503,563	\$11,700,143
Accounts receivable	87,241	913
Prepaid expenses	72,295	227,010
Total Current Assets	10,663,099	11,928,066
Non-Current Assets		
Plant and equipment, net	818,613	690,538
Intangibles, net	210,000	227,500
Deposits	9,168	2,200
Total Non-Current Assets	1,037,781	920,238
Total Assets	\$11,700,880	\$12,848,304
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$159,541	\$150,071
Accounts payable - related parties	101,171	1,000
Accrued expenses and other payables	61,773	290,947
Notes payable	3,000	3,000
Total Current Liabilities	325,485	445,017
Stockholders' Equity		
Series A-1 Convertible Preferred stock, \$0.01 par value; 5,000,000 shares designated, 3,137,500 shares issued and outstanding. (liquidation preference \$251,000)	3,138	3,138
Series B Convertible, Redeemable Preferred Stock, \$0.001 par value; 500,000 shares designated; 40,000 issued and outstanding. (liquidation preference \$480,000)	40	40
Series C Convertible, Preferred Stock, \$0.001 par value, 4,500,000 shares designated, 4,500,000 issued and outstanding (liquidation preference \$14,750,000)	4,500	4,500
Common stock, \$0.001 par value; 500,000,000 shares authorized, 268,558,931 shares issued and outstanding.	268,559	268,559
Additional paid-in-capital	26,290,942	26,271,185
Accumulated deficit	(15,191,784)	(14,393,474)
Total stockholder's equity - controlling interest	11,375,395	12,153,948
Non-controlling interest	-	249,339
Total Stockholders' Equity	11,375,395	12,403,287
Total Liabilities and Stockholders' Equity	\$11,700,880	\$12,848,304

See notes to unaudited condensed consolidated financial statements

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PROPELL
TECHNOLOGIES
GROUP, INC.
UNAUDITED
CONDENSED
CONSOLIDATED
STATEMENTS OF
OPERATIONS

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net Revenue	\$82,237	\$82,500
Cost of Goods Sold	110,047	57,823
Gross (Loss) Profit	(27,810)	24,677
Sales and Marketing	5,899	597
Professional fees	107,674	155,731
Business development	148,750	-
Consulting fees	440,819	94,387
General and administrative	482,619	383,091
Depreciation and amortization	34,088	32,433
Total Expense	1,219,849	666,239
Loss from Operations	(1,247,659)	(641,562)
Other income	200,010	-
Amortization of debt discount and finance costs	-	(53,100)
Change in fair value of derivative liabilities	-	18,455
Loss before Provision for Income Taxes	(1,047,649)	(676,207)
Provision for Income Taxes	-	-
Net Loss	(1,047,649)	(676,207)
Net loss attributable to non-controlling interest	249,339	-
Net Los Attributable to Controlling Interest	(798,310)	(676,207)
Deemed preferred stock dividend	-	(1,101,696)

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Undeclared Series B and Series C Preferred stock dividends	(156,071)	(82,575)
Net loss available to common stock holders	\$(954,381)	\$(1,860,478)
Net Loss Per Share - Basic and Diluted	\$(0.00)	\$(0.01)
Weighted Average Number of Shares Outstanding - Basic and Diluted	268,558,931	250,363,331

See notes to unaudited condensed consolidated financial statements

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PROPELL TECHNOLOGIES GROUP, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE PERIOD JANUARY 1, 2016 TO MARCH 31, 2016

	Preferred Stock		Series B		Series C		Common Stock		Additional Paid-in Capital	Accumula Deficit
	Series A-1 Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
Balance as of January 1, 2016	3,137,500	\$3,138	40,000	\$40	4,500,000	\$4,500	268,558,931	\$268,559	\$26,271,185	\$(14,393,4
Stock option based compensation	-	-	-	-	-	-	-	-	19,757	-
Net loss for the three months ended March 31, 2016	-	-	-	-	-	-	-	-	-	(798,310
Balance as of March 31, 2016	3,137,500	\$3,138	40,000	\$40	4,500,000	\$4,500	268,558,931	\$268,559	\$26,290,942	\$(15,191,7

See notes to unaudited condensed consolidated financial statements

PROPELL TECHNOLOGIES GROUP, INC.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2016	Three months ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss attributable to the company	\$ (798,310)	\$ (676,207)
Less: loss attributable to non-controlling interest	(249,339)	-
Net loss	(1,047,649)	(676,207)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation expense	16,588	14,933
Amortization expense	17,500	17,500
Amortization of debt discount	-	16,232
Equity based compensation charge	19,757	241,286
Derivative financial liability	-	(18,455)
Gain on debt forgiven	(200,000)	-
Changes in Assets and Liabilities		
Accounts receivable	(86,328)	(82,499)
Prepaid expenses and other current assets	154,715	(34,471)
Accounts payable	9,470	(280,129)
Accounts payable - related party	97,889	-
Accrued liabilities	(26,891)	27,193
Accrued interest	-	(11,261)
Cash Used in Operating Activities	(1,044,949)	(785,878)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(144,663)	(45,800)
Investment in deposit	(6,968)	-
NET CASH USED IN INVESTING ACTIVITIES	(151,631)	(45,800)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on issuance of Series C Preferred stock	-	5,000,000
Proceeds from notes payable and advances	-	125,000
Repayment of notes payable and advances	-	(421,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	4,704,000
NET (DECREASE) INCREASE IN CASH	(1,196,580)	3,872,322
CASH AT BEGINNING OF PERIOD	\$ 11,700,143	\$ 40,844
CAST AT END OF PERIOD	\$ 10,503,563	\$ 3,913,166
CASH PAID FOR INTEREST AND TAXES:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ 48,130
NON-CASH INVESTING AND FINANCING ACTIVITIES		

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Conversion of debt to equity	\$-	\$ 12,789
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See notes to unaudited condensed consolidated financial statements

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND DESCRIPTION OF BUSINESS

a) Organization

Propell Technologies Group, Inc. (formerly known as 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 (doing business as Arrow Media Solutions) (“AMS”) and Auleron 2005, LLC (doing business as 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. (“Novas”) 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 was considered the acquirer for accounting purposes.

b) Description of the business

The Company, through its wholly owned subsidiary, Novas, and majority owned subsidiary, NENA, is an innovative technology and services company whose aim is to improve oil production by introducing modern and innovative technologies. Novas has a unique Plasma-Pulse Treatment (“PPT”) technology, patented in the USA, which is a new Enhanced Oil Recovery methodology and process that has been developed to be environmentally friendly, mobile, time efficient and cost effective.

On October 22, 2015, Novas Energy USA, Inc. (“Novas”), a wholly owned subsidiary of Propell Technologies Group, Inc. (the “Company”), entered into an operating agreement with Technovita Technologies USA, Inc. (the “Joint Venture Agreement”) through a newly formed Delaware limited liability company, Novas Energy North America, LLC (“NENA”), whereby Novas agreed to contribute \$1,200,000 (\$600,000 delivered on the effective date (October 22, 2015) of the Joint Venture Agreement, \$300,000 on November 1, 2015 and \$300,000 on the two month anniversary of the Effective Date) to the capital of NENA for 60% of the membership interests of NENA and Technovita agreed to contribute an aggregate of \$800,000 to the capital of NENA for 40% of the membership interests of NENA. In terms of a side agreement entered into on November 18, 2015, the revenue and expenses incurred by Technovita prior to entering into the operating agreement, have been included in the joint venture and consolidated into the Company’s results effective September 1, 2015.

Subject to certain exceptions and pursuant to the terms of a sublicense agreement (the “Novas Sublicense Agreement”) that was entered into between Novas, NENA and Novas Energy Group Inc. (the “Licensor”), the licensor of Plasma Pulse Technology currently used by Novas and Technovita, NENA is the exclusive licensor of PPT for the treatment of vertical wells in the United States. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the “Technovita Sublicense Agreement”) that was entered into between Technovita, NENA and Licensor, NENA is the exclusive licensor of PPT for the treatment of vertical wells in Canada. Notwithstanding the foregoing, both Novas and Technovita will retain the right to deploy the PPT Technology on vertical wells owned by Novas or Technovita in the United States or Canada, respectively. If either Novas or Technovita terminates the Sublicense Agreement with NENA and Licensor, the non-terminating party will receive 100% of the terminating member’s membership interest in NENA.

The business and affairs of NENA are to be managed by or under the direction of the Board of Directors, consisting of five (5) members, three (3) of whom shall be appointed by Novas and two (2) of whom shall be appointed by Technovita. Board approval is required to: (i) incur any indebtedness, pledge or grant liens on any assets or guarantee, assume, endorse or otherwise become responsible for the obligations of any other person, except to the extent approved or authorized in NENA’s budget; (ii) make any loan, advance or capital contribution in any person, except to the extent approved or authorized in the budget; (iii) transfer any equipment necessary in the deployment of the Vertical Technology to any third party; (iv) enter into or effect any transaction or series of related transactions involving the sale of NENA or the sale, lease, license, exchange or other disposition (including by merger, consolidation, sale of assets or similar business transaction) by NENA of any assets in excess of \$300,000; (v) appoint or remove NENA’s auditors or make any changes in the accounting methods or policies of NENA (other than as required by GAAP); (vi) enter into or effect any transaction or series of related transactions involving the purchase, lease, license, exchange or other acquisition (including by merger, consolidation, acquisition of stock or acquisition of assets) by NENA of any assets and/or equity interests of any person and/ or assets in excess of \$300,000; or (v) enter into or effect any commercial transaction or series of related commercial transactions involving anticipated liabilities or revenues of NENA in excess of \$500,000 or that materially vary from NENA’s existing strategy or business plan.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES

a) Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting only of normal recurring adjustments), which we consider necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months ended March 31, 2016 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this quarterly report on Form 10-Q should be read in conjunction with our audited financial statements included in our annual report on Form 10-K as of and for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the “SEC”).

Significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of our annual report on Form 10-K as of December 31, 2015.

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to: the estimated useful lives for plant 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, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

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 unaudited 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.

All amounts referred to in the notes to the unaudited consolidated financial statements are in United States Dollars (\$) unless stated otherwise.

b) Principles of Consolidation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiary in which it has a majority voting interest. All significant inter-company accounts and transactions have been eliminated in the unaudited consolidated financial statements. The entities included in these unaudited consolidated financial statements are as follows:

Propell Technologies Group, Inc. – Parent Company

Novas Energy USA Inc. (wholly owned)

Novas Energy North America, LLC (60% owned)

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

c) Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to: the estimated useful lives for plant 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, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

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.

d) Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

e) Fair Value of Financial Instruments

The Company adopted the guidance of Accounting Standards Codification (“ASC”) 820 for fair value measurements which clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, prepaid expenses, deposits, accounts payable, accrued liabilities, notes payable, and convertible notes payable approximate fair value due to the relatively short period to maturity for these instruments. The recorded derivative liabilities during the year ended December 31, 2014 was noted as subject to level III fair value measurements. The Company did not identify any other assets or liabilities that are required to be presented on the balance sheets at fair value in accordance with the accounting guidance.

ASC 825-10 “*Financial Instruments*” allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding instruments.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

f) 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.

The Company's operations are carried out in the USA, Mexico and Canada. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the USA, Mexico and Canada and by the general state of those economies. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, and rates and methods of taxation, among other things.

g) Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this guidance.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-02, which amends the guidance in U.S. GAAP on accounting for operating leases, a lessee will be required to recognize assets and liabilities for operating leases with lease terms of more than 12 months on the balance sheet. The new standard is effective for fiscal years and interim periods beginning after December 15, 2018., and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the

beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 – 09 Improvements to Employee Share-Based Payment Accounting” which is intended to improve the accounting for employee share-based payments. The ASU simplifies several aspects of the accounting for share-based payment award transactions, including; the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016., and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

In April 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) “ASU 2016 – 10 Revenue from Contract with Customers: identifying Performance Obligations and Licensing”. The amendments in this Update clarify the two following aspects (a) contracts with customers to transfer goods and services in exchange for consideration and (b) determining whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). The amendments in this Update are intended to reduce the degree of judgement necessary to comply with Topic 606. This guidance has no effective date as yet. The Company is currently evaluating the impact of adopting this guidance.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

h) Reporting by Segment

No segmental information is required as the Company currently only has one segment of business, the Plasma Pulse Technology for the petroleum industry.

Revenues to date are insignificant.

i) 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, 2016 and December 31, 2015, 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, 2016, the Company had cash balances of \$10,503,563, which exceeded the federally insured limits by \$9,920,316. At December 31, 2015, the Company had cash balances of \$11,700,143, which exceeded the federally insured limits by \$10,877,045.

j) 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, 2016.

k) Inventory

The Company had no inventory as of March 31, 2016 or December 31, 2015.

l) Plant and Equipment

Plant and equipment is stated at cost, less accumulated depreciation. Plant and equipment with costs greater than \$1,000 are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are 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
Plant and equipment	2 to 3 years
Plasma pulse tools	5 years

The cost of repairs and maintenance is expensed as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

m) Intangibles

All of our intangible assets are subject to amortization. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives that indicates the asset may be impaired. Where intangibles are deemed to be impaired we recognize an impairment loss measured as the difference between the estimated fair value of the intangible and its book value.

i) License Agreements

License agreements acquired by the Company are reported at acquisition value less accumulated amortization and impairments.

ii) Amortization

Amortization is reported in the income statement on a straight-line basis over the estimated useful life of the intangible assets, unless the useful life is indefinite. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life of the license agreement is five years which is the expected period for which we expect to derive a benefit from the underlying license agreements.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ESTIMATES (continued)

n) 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.

o) 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.

p) 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.

q) 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, 2016, there have been no interest or penalties incurred on income taxes.

r) Net Loss per Share

Basic net loss per share is computed on the basis of the weighted average number of common shares outstanding during the period.

Diluted net loss per share is computed on the basis of the weighted average number of common shares and common share equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted net loss per share are excluded from the calculation. See note 12 below.

Dilution is computed by applying the treasury stock method for options and warrants. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common shares at the average market price during the period.

Dilution is computed by applying the if-converted method for convertible preferred shares. Under this method, convertible preferred stock is assumed to be converted at the beginning of the period (or at the time of issuance, if later), and preferred dividends (if any) will be added back to determine income applicable to common stock. The shares issuable upon conversion will be added to weighted average number of common shares outstanding. Conversion will be assumed only if it reduces earnings per share (or increases loss per share).

Any common shares issued as a result of the issue of stock options and warrants would come from newly issued common shares from our remaining authorized shares.

s) Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income for the periods presented includes net loss.

t) Related parties

Parties are considered to be related to the Company if the parties that, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company, or own in aggregate, on a fully diluted basis 5% or more of the Company's stock. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all related party transactions. All transactions are recorded at fair value of the goods or services exchanged. Property purchased from a related party is recorded at the cost to the related party and any payment to or on behalf of the related party in excess of the cost is reflected as a distribution to related party.

u) Reclassification

Certain reclassifications have been made to the prior year financial statement numbers to conform to the current presentation of the financial statements.

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PROPELL TECHNOLOGIES GROUP, INC.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****3 PREPAID EXPENSES**

Prepaid expenses consisted of the following as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Prepaid insurance	\$ 33,290	\$ 28,180
Expenses in excess of billings	8,856	155,606
Prepaid professional fees	29,774	42,404
Other	375	820
	\$ 72,295	\$ 227,010

4 PLANT AND EQUIPMENT

Plant and Equipment consisted of the following as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Capital work in progress	\$577,703	\$ 453,228
Plasma pulse tool	310,374	310,374
Furniture and equipment	31,577	27,667
Field equipment	19,627	19,627
Computer equipment	4,176	3,887
Computer software	5,954	-
Total cost	949,411	814,783
Less: accumulated depreciation	(130,798)	(124,245)
Property and equipment, net	\$818,613	\$ 690,538

Depreciation expense was \$16,588 and \$14,933 for the three months ended March 31, 2016 and 2015, respectively.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 INTANGIBLES

Licenses

Novas licenses the “Plasma-Pulse Technology” (“the Technology”) from Novas Energy Group Limited, the Licensor, pursuant to the terms of an exclusive perpetual royalty bearing license it entered into in January 2013, which was amended on March, 2014. The amended license agreement provides Novas with the exclusive right to develop, use, market and commercialize the Technology for itself and/or third parties, sublicense and provide services to third parties related to the Technology in the United States and Mexico including all of its states, districts, territories, possessions and protectorates. The amended license agreement also provides Novas with the right to design and have manufactured the apparatus and to make modifications and improvements to the Technology provided that the Licensor is provided a non-exclusive license to any such improvements and modifications and any patent rights of Novas related to the Technology. The license is limited to the United States and Mexico. It also provides that Novas will pay the Licensor royalties equal to seven and a half percent (7.5%) of Net Service Sales (as defined in the license agreement) and Non-Royalty Sublicensing Consideration (as defined in the license agreement) and provides for a minimum royalty payment of \$500,000 per year from United States operations and \$500,000 per year from Mexican operations. The royalty provision was amended by the Novas Sublicense Agreement that provides that NENA pays the 7.5% royalty fee and that such 7.5% fee is the exclusive consideration to the Licensor for use of the Technology in the United States so long as the Novas Sublicense Agreement is in effect. Revenue derived from operations in one territory can be used to satisfy obligations for minimum royalty payments in the other territory. All royalty payments made by Novas as well as sublicensing revenue paid by Novas to the Licensor are credited towards the minimum royalty payment. If the minimum royalty is not timely paid, the Licensor has the right to terminate the license with respect to a particular territory and if the minimum royalty payment for both territories is not paid, to terminate the license agreement. Novas was obligated to pay an initial license fee of \$200,000 to the licensor on June 30, 2015. This license fee was waived on March 29, 2016. The Licensor is responsible for the cost of filing prosecuting and maintaining the patents and Novas is responsible for costs of obtaining marketing approvals. The Licensor has the right to terminate the license agreement upon Novas’ breach or default. If the Licensor dissolves, becomes insolvent or engages in or is the subject of any other bankruptcy proceeding then the technology and patent rights in the United States shall become our property.

Subject to certain exceptions and pursuant to the terms of the Novas Sublicense Agreement that was entered into on October 22, 2015, between Novas, NENA and the Licensor of the Plasma Pulse Technology currently used by Novas and Technovita, NENA will be the exclusive provider of the Vertical Technology (as defined in the Joint Venture Agreement entered into on October 22, 2015) to third parties in the United States. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the “Technovita Sublicense Agreement”) that was entered into between Technovita, NENA and Licensor, NENA is the exclusive provider of the Vertical Technology to third parties in Canada. Notwithstanding the foregoing, both Novas and Technovita will retain the right to deploy the Vertical Technology on wells owned by Novas or Technovita in the United States or Canada, respectively. If either Novas or

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Technovita terminates the Sublicense Agreement with NENA and Licensor, the non-terminating party will receive 100% of the terminating member's membership interest in NENA.

Intangibles consisted of the following as of March 31, 2016 and December 31, 2015, respectively:

	March 31, 2016	December 31, 2015
License agreements	\$ 350,000	\$ 350,000
Website development	8,000	8,000
Total cost	358,000	358,000
Less: accumulated amortization	(148,000)	(130,500)
Intangibles, net	\$ 210,000	\$ 227,500

Amortization expense was \$17,500 for the three months ended March 31, 2016 and 2015.

The minimum commitments due under the license agreement for the next five years are summarized as follows:

	Amount
2016	\$500,000
2017	500,000
2018	500,000
2019	500,000
2020	500,000
	\$2,500,000

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 ACCOUNTS PAYABLE - RELATED PARTY

Accounts payable to related parties includes the following:

	March 31, 2016	December 31, 2015
Technovita Technologies Corp.	\$ 100,413	\$ 1,000
Energy Conservation Management	758	-
	\$ 101,171	\$ 1,000

Technovita Technologies Corp., is the 40% shareholder in the NENA joint venture which the Company entered into. This payable represents expenses paid on behalf of the joint venture by Technovita.

Energy Conservation Corp is a third party contractor associated with the joint venture.

7 ACCRUED LIABILITIES AND OTHER PAYABLES

Accrued liabilities consisted of the following as of March 31, 2016 and December 31, 2015, respectively:

	March 31, 2016	December 31, 2015
Payroll liabilities	\$ 39,797	\$ 38,063
Severance accrual	-	31,109
Accrued Royalties	16,753	14,653
License fees payable	-	200,000
Other	5,223	7,122
	\$ 61,773	\$ 290,947

The license fee payable to Novas BVI for the rights to use the plasma pulse technology in Mexico was waived on March 29, 2016.

8NOTES PAYABLE

Notes payable consisted of the following as of March 31, 2016 and December 31, 2015, respectively:

Description	Interest Rate	Maturity	March 31, 2016	December 31, 2015
Short-Term Owl Holdings	-	-	\$ 3,000	\$ 3,000
Total Short term notes payable			\$ 3,000	\$ 3,000

Owl Holdings

The note payable advanced by Owl Holdings to the Company has no interest rate and is repayable on demand.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY

a) Common Stock

The Company has authorized 500,000,000 common shares with a par value of \$0.001 each, and issued and has outstanding 268,558,931 shares of common stock as of March 31, 2016.

b) Preferred Stock

The Company has 10,000,000 authorized preferred shares with a par value of \$0.001 each with 5,000,000 preferred shares designated as Series A-1 Convertible Preferred Stock ("Series A-1 Shares"), 500,000 preferred shares designated as Series B Preferred Stock and on February 19, 2015, the Company amended its articles of incorporation, designating the remaining 4,500,000 preferred shares as Series C Preferred Stock.

i) Series A-1 Convertible Preferred Stock

The Company has designated 5,000,000 preferred shares as Series A-1 Convertible Preferred Stock ("Series A-1 Shares"), with 3,137,500 Series A-1 Shares issued and outstanding which are convertible into 31,375,000 shares of common stock.

The rights, privileges and preferences of the Series A-1 Shares are summarized as follows;

Conversion

Each Series A-1 Share has the following conversion rights:

- (a) Each share of the Series A-1 Shares is convertible into ten shares of Common Stock.

- (b) There shall be no adjustment made to the conversion ratio of the Series A-1 Shares for any stock split, stock dividend, combination, reclassification or other similar event.

Company Redemption

The Series A-1 Shares are non-redeemable by the Company.

Voting Rights

Each holder of Series A-1 Shares 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 Shares could then be converted.

Dividends

Until such time that any dividend is paid to the holders of Common Stock, the holders of Series A-1 Shares 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 Shares into Common Stock immediately prior to the payment of such dividend

Liquidation Preference

Each share of Series A-1 Shares is entitled to a liquidation preference of \$0.08 per share

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

b) Preferred Stock (continued)

i) Series A-1 Convertible Preferred Stock

No Circumvention

The approval of the holders of at least 2/3 (66.6%) of the outstanding shares of the Series A-1 Shares, 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 Shares;
- (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 effect on the rights, preferences or privileges of the Series A-1 Shares; and
- (e) the making of any loan or advance to any person except in the ordinary course of business.

ii) Series B Convertible Preferred Stock

The Company has designated 500,000 preferred shares as Series B Convertible Preferred Stock ("Series B Shares"), with 40,000 Series B Shares issued and outstanding which are convertible into 4,000,000 shares of common stock.

The rights, privileges and preferences of the Series B Shares are summarized as follows:

Conversion

The holders of the Series B Preferred Shares shall have conversion rights as follows:

Each share of the Series B Shares is convertible at any time prior to the issuance of a redemption notice by the Company into such number of shares of Common Stock by dividing the Stated value (\$10) of the Series B Shares by \$0.10 and is subject to adjustment for dividends or distributions made in common stock, the issue of securities convertible into common stock, stock splits, reverse stock splits, or reclassifications of common stock. No (a) adjustments will be made to the conversion rights or conversion price for any reorganization other than to be entitled to receive the same benefits as if the shares were converted immediately prior to such reorganization. No conversion will take place if the holder of the Series B Shares will beneficially own in excess of 4.99% of the shares of Common Stock outstanding immediately after conversion. As of the date hereof, each Series B Share converts into 100 shares of common stock.

- (b) The conversion right of the holders of Series B Shares are exercised by the surrender of the certificates representing shares to be converted to the Company, accompanied by written notice electing conversion.

No fractional shares of Common Stock or script will be issued upon conversion of Series B Shares. The Company (c) will pay a cash adjustment in respect to such fractional interest based upon the fair value of a share of Common Stock, as determined in good faith by the Company's Board of Directors.

All shares of Common Stock issued upon conversion of Series B Shares will upon issuance be validly issued, fully (d) paid and non-assessable. All certificates representing Series B Shares surrendered for conversion shall be appropriately canceled on the books of the Company and the shares so converted represented by such certificates shall be restored to the status of authorized but unissued shares of preferred stock of the Company.

Company Redemption

The Company has the right, at any time after the date the Series B Shares have been issued, to redeem all or a portion of any Holder's Series B Shares at a price per Series B Share equal to the issue price per Series B Share multiplied by 120%

Voting Rights

Each holder of Series B Shares is entitled to vote on all matters submitted to a vote of the stockholders of the Company and is entitled to votes equal to the number of shares of Common Stock into which Series B Shares could be converted, and the holders of shares of Series B Shares and Common Stock shall vote together as a single class on all

matters submitted to the stockholders of the Company.

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

b) Preferred Stock (continued)

ii) Series B Convertible Preferred Stock

Dividends

- The holders of the Series B Shares are entitled to receive cumulative dividends at the rate of eight percent per annum of the issue price per share, accrued daily and payable annually in arrears on December 31st of each year
- (a) (“Dividend Date”). Such dividends accrue on any given share from the day of original issuance of such share. Such dividends are cumulative, whether or not declared by the Board of Directors, but are non-compounding.
- (b) Any dividend payable on a dividend payment date may be paid, at the option of the Company, either (i) in cash or (ii) in shares of common stock at an issue price of \$0.10 per common share.
- (c) Nothing contained herein is deemed to establish or require any payment or other charges in excess of the maximum permitted by applicable law.

- In the event that pursuant to applicable law or contract the Company is prohibited or restricted from paying in cash the full dividends to which the holders of the Series B Shares are entitled, the cash amount available pursuant
- (d) to applicable law or contract will be distributed among the holders of the Series B Shares ratably in proportion to the full amounts to which they would otherwise be entitled and any remaining amount due to holders of the Series B Shares will be payable in cash.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of the Series B Shares are entitled to receive, prior and in preference to any distribution of any assets of the Company to the holders of any other preferred stock of the Company and subordinate to any distribution to the Series A-1 Shares, and prior and in preference to any distribution of any assets of the Company to the holders of the Common Stock, the amount of 120% of the issue price per share. In addition, the Series B holder has agreed to vote to

subordinate the series B Preferred stock liquidation preferences to the Series C Preferred stock preferences.

No Circumvention

The Company may not amend its certificate of incorporation, or participate in any reorganization, sale or transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed by the Company.

We have undeclared dividends on the Series B Preferred stock amounting to \$100,504 as of March 31, 2016. If the dividends are paid in stock, the beneficial conversion feature of these undeclared dividends will be recorded upon the declaration of these dividends. The computation of loss per common share for the three months ended March 31, 2016 takes into account these undeclared dividends.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

b) Preferred Stock (continued)

iii) Series C Convertible Preferred Stock

The Company has designated 4,500,000 preferred shares as Series C Convertible Preferred Stock ("Series C Shares"), with 4,500,000 Series C Shares issued and outstanding which are convertible into 120,000,000 shares of common stock (a conversion price of \$0.12291665 per share).

The Company had entered into an Investors' Rights Agreement with Ervington (the "Investors' Rights Agreement"). The Investors' Rights Agreement provides that the Holders (as defined in the Investors' Rights Agreement) of a majority of the outstanding Registerable Securities (defined therein as the shares of common stock and Series A-1 Convertible Preferred Stock ("Series A-1 Preferred Stock") issued pursuant to the Secondary Stock Purchase Agreement (as defined below), the shares of Series C Preferred Stock issued pursuant to the Purchase Agreement and any common stock issued as dividends thereon or in exchange for such) are entitled to demand registration rights under certain circumstances and piggyback registration rights. In addition, the Investors' Rights Agreement provides that Ervington (or its assignee) has the right to designate a person to be appointed as the Company's Chief Executive Officer, a board observer right if a representative of Ervington or its affiliate is not a member of our board of directors and certain consultation rights if a representative of Ervington or its affiliate is not a member of our board of directors so long as it holds a majority of the Registerable Securities and at least 36,000,000 shares of our common stock on an "as converted" basis. Ervington and its affiliates also have a right of first refusal to acquire their pro rata share of any New Securities (as defined in the Investors' Rights Agreement) which we propose to issue and sell.

The Company also entered into a Stockholders Agreement (the "Stockholders Agreement") providing that until a Change of Control Transaction (as defined in the Stockholders Agreement), each person a party thereto shall vote all of such person's shares of our common stock in favor of the designees appointed by Ervington and two additional directors appointed by two of the Selling Stockholders and Ervington agreed to vote its shares in favor of the two designees appointed by the two Selling Stockholders provided that the certain Selling Stockholders continue to own a certain threshold number of shares of our common stock or preferred stock convertible into our common stock. In addition, the Selling Stockholders granted Ervington certain drag along rights in the event of a Change of Control Transaction (as defined in the Stockholders Agreement) and Ervington and its affiliates were granted certain rights of first refusal.

In accordance with the terms of the Series C Preferred Stock Certificate of Designations (the “Series C Certificate of Designations”), Ervington appointed Ivan Persiyanov to serve as a director, holding two votes and Maria Damianou was appointed to serve as a director during July 2015, holding one vote.

The terms attached to the Series C Preferred Stock (“Series C Share”) are summarized below:

Conversion

Subject to adjustment for stock splits, stock dividends, reorganizations and recapitalizations and similar transactions, each Series C Share is currently convertible at the option of the holder into 26.67 shares of common stock.

Company Redemption

The Series C Shares are not subject to redemption by the Company.

Voting Rights

Generally, holders of Series C Shares will, on an as-converted basis, vote together with the common stock as a single class.

Upon the issuance of at least 1,500,000 shares of Series C Preferred Stock the holders of the Series C Preferred Stock, as a class, are entitled to elect either two directors holding one vote or one director holding two votes. Upon the issuance of an aggregate of 4,500,000 shares of Series C Preferred Stock, the holders of the Series C Preferred Stock are entitled to elect either three directors holding one vote each, one director holding three votes or two directors with one director holding two votes and another director holding one vote.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

b) Preferred Stock (continued)

iii) Series C Convertible Preferred Stock (continued)

Dividends

The Series C Shares accrue dividends at the rate per annum equal to 4% of the stated price (which initially is \$3.277777778) payable annually in arrears on December 31 of each year in preference and priority to any payment of any dividend on our common stock, or any other class of preferred stock.

Liquidation Preference

In the event of our liquidation, dissolution or winding up and other liquidation events (as defined in the Series C Certificate of Designations), holders of Series C Shares are entitled to receive from proceeds remaining after distribution to our creditors and prior to the distribution to holders of common stock or any other class of preferred stock the (x) stated value (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) held by such holder and (y) all accrued but unpaid dividends on such shares.

Anti-Dilution

The Series C Shares are entitled to certain weighted average anti-dilution protection as specified in the Series C Certificate of Designations.

No Circumvention

The approval by holders of a majority of the Series C Shares, voting separately as a class, will be required for the following:

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- (i) merger, sale of substantially all of our assets or our recapitalization, reorganization, liquidation, dissolution or winding up;
- (ii) redemption or acquisition of shares of our common stock other than in limited circumstances;
- (iii) declaration or payment of a dividend or distribution with respect to our capital stock;
- (iv) making any loan or advance;
- (v) amending the Company's Certificate of Incorporation or Bylaws;
- (vi) authorizing or creating any new class or series of equity security;
- (vii) increasing the number of authorized shares for issuance under any existing stock or option plan;
- (viii) materially changing the nature of the business
- (ix) incurring any indebtedness;
- (x) engaging in or making investments not authorized by our board of directors;
- (xi) acquiring or divesting a material amount of assets;
- (xii) selling, assigning, licensing, pledging or encumbering our material technology or intellectual property;
- (xiii) entering into any corporate strategic relationship involving payment, contribution or assignment by the Company or to the Company of any assets.

The Company has undeclared dividends on the Series C Preferred stock amounting to \$516,301 as of March 31, 2016. The computation of loss per common share for the three months ended March 31, 2016 takes into account these undeclared dividends.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

c) Stock Options

i) Plan options

The Company's Board of Directors approved the Company's 2008 Stock Option Plan (the "Stock Plan") for the issuance of up to 5,000,000 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. A total of 2,100,000 shares are available for grant. 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, 2016 and December 31, 2015, there were 380,950 Plan options issued and outstanding, under the Stock Option Plan.

The vesting provisions for these stock options are determined by the board of directors at the time of grant, there are no unvested options outstanding as of March 31, 2016.

No plan options were issued during the three months ended March 31, 2016.

In the event of the employees' termination, the Company will cease to recognize compensation expense.

ii) Non-Plan Stock Options

On January 1, 2016, the Company granted, to its newly appointed Chief Executive Officer, 3,000,000 common stock, non-plan options (that are not covered by the Company's Stock Option Plan), with an exercise price of \$0.09 per share.

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These options vest as to 1,000,000 on the first anniversary of the grant date; 1,000,000 on the second anniversary of the grant date and a further 1,000,000 on the third anniversary of the grant date.

On March 1, 2016, the Company granted, to its newly appointed Chief Operating Officer, 1,000,000 common stock, non-plan options (that are not covered by the Company's Stock Option Plan), with an exercise price of \$0.08 per share. These options vest as to 333,334 on the first anniversary of the grant date; 333,333 on the second anniversary of the grant date and a further 333,333 on the third anniversary of the grant date.

In the event of the employees' termination, the Company will cease to recognize compensation expense.

The Company expenses the value of stock options on a straight line basis over the life of the options. The fair value of the options granted is determined using the Black-Scholes option-pricing model.

The following weighted average assumptions were used for the three months ended March 31, 2016:

	Three months ended March 31, 2016
Stock price	\$0.07 – 0.24
Risk-free interest rate	1.31% to 1.73 %
Expected life of options	5 Years
Expected volatility of the underlying stock	106.1% to 113.2 %
Expected dividend rate	0 %

As noted above, the fair value of stock options is determined by using the Black-Scholes option-pricing model. For all options granted since inception, the Company has generally used option terms of between 1 to 10 years. The volatility of the common stock is estimated using the Company's historical data. The risk-free interest rate used in the Black-Scholes option-pricing model is determined by reference to historical U.S. Treasury constant maturity rates with maturities approximate to the life of the options granted. An expected dividend yield of zero is used in the option valuation model, because the Company does not expect to pay any cash dividends in the foreseeable future. As of March 31, 2016, the Company does not anticipate any awards will be forfeited in the calculation of compensation expense due to the limited number of employees that receive stock option grants.

PROPELL TECHNOLOGIES GROUP, INC.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9 STOCKHOLDERS' EQUITY (continued)****c) Stock Options (continued)**

A summary of all of our option activity during the period January 1, 2015 to March 31, 2016 is as follows:

	Shares Underlying Options	Exercise price per share	Weighted average exercise price
Outstanding January 1, 2015	380,950	\$0.51 to 13.50	\$ 0.90
Granted – plan options	-	-	-
Granted – non plan options	-	-	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
Outstanding December 31, 2015	380,950	\$0.51 to 13.50	\$ 0.90
Granted – plan options	-	-	-
Granted – non plan options	4,000,000	\$0.08 to 0.09	0.09
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
Outstanding March 31, 2016	4,380,950	0.08 to 13.50	0.16

Stock options outstanding as of March 31, 2016 and December 31, 2015 as disclosed in the above table, have an intrinsic value of \$0 and \$0, respectively.

The options outstanding and exercisable at March 31, 2016 are as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual

		life in years				life in years
\$ 13.50	3,480	3.21	\$ 13.50	3,480	\$ 13.50	3.21
\$ 12.50	2,000	4.53	\$ 12.5	2,000	\$ 12.50	4.53
\$ 8.50	500	5.25	\$ 8.50	500	\$ 8.50	5.25
\$ 5.00	14,800	5.54	\$ 5.00	14,800	\$ 5.00	5.54
\$ 0.65	36,924	7.00	\$ 0.65	36,924	\$ 0.65	7.00
\$ 0.63	38,096	2.25	\$ 0.63	38,096	\$ 0.63	2.25
\$ 0.51	285,150	4.04	\$ 0.51	285,150	\$ 0.51	4.04
\$ 0.09	3,000,000	4.76	\$ 0.09	-	\$ -	-
\$ 0.08	1,000,000	4.92	\$ 0.08	-	\$ -	-
	4,380,950	4.75	\$ 0.16	380,950	\$ 0.90	4.20

The weighted-average grant-date fair values of options granted during the three months ended March 31, 2016 was \$277,674 (\$0.07 per option). As of March 31, 2016 there were unvested options to purchase 4,000,000 shares of common stock. Total expected unrecognized compensation cost related to such unvested options is \$257,917 which is expected to be recognized over a period of 35 months.

The Company has recorded an expense of \$19,757 and \$241,286 for the three months ended March 31, 2016 and 2015 relating to options issued.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 STOCKHOLDERS' EQUITY (continued)

(d) Warrants

A summary of all of our warrant activity during the period January 1, 2015 to March 31, 2016 is as follows:

	Shares Underlying Warrants	Exercise price per share	Weighted average exercise price
Outstanding January 1, 2015	6,339,498	\$0.15 to 0.30	\$ 0.24
Granted	-	-	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
Outstanding December 31, 2015	6,339,498	\$0.15 to 0.30	\$ 0.24
Granted	-	-	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
Outstanding March 31, 2016	6,339,498	\$0.15 to 0.30	\$ 0.24

The warrants outstanding and exercisable at March 31, 2016 are as follows:

Exercise Price	Warrants Outstanding			Warrants Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual life in years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual life in years
\$ 0.30	375,000	2.58	\$ 0.30	375,000	\$ 0.30	2.58
\$ 0.25	1,751,667	3.24	\$ 0.25	1,751,667	\$ 0.25	3.24
\$ 0.15	525,500	3.24	\$ 0.15	525,500	\$ 0.15	3.24
\$ 0.25	1,508,333	3.34	\$ 0.25	1,508,333	\$ 0.25	3.34
\$ 0.15	577,499	3.35	\$ 0.15	577,499	\$ 0.15	3.35
\$ 0.25	968,166	3.35	\$ 0.25	968,166	\$ 0.25	3.35

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\$ 0.25	633,333	3.40	\$ 0.25	633,333	\$ 0.25	3.40
	6,339,498	3.27	\$ 0.24	6,339,498	\$ 0.24	3.27

The warrants outstanding have an intrinsic value of \$0 as of March 31, 2016 and 2015.

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 EQUITY BASED COMPENSATION

Equity based compensation is made up of the following:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Stock option compensation charge	\$ 19,757	\$ -
Restricted stock award compensation charge	-	241,286
	\$ 19,757	\$ 241,286

11 OTHER (EXPENSE) INCOME

Other income includes the \$200,000 forgiveness of the license fee payable to Novas Energy Group Limited, our technology licensor.

PROPELL TECHNOLOGIES GROUP, INC.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****12 NET LOSS PER SHARE**

Basic loss per share is based on the weighted-average number of common shares outstanding during each period. Diluted loss per share is based on basic shares as determined above plus common stock equivalents, including convertible preferred shares and convertible notes as well as the incremental shares that would be issued upon the assumed exercise of in-the-money stock options using the treasury stock method. The computation of diluted net loss per share does not assume the issuance of common shares that have an anti-dilutive effect on net loss per share. For the three months ended March 31, 2016 and 2015, all stock options, unvested restricted stock awards, warrants, convertible preferred stock and convertible notes were excluded from the computation of diluted net loss per share. Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their affect would have been anti-dilutive are as follows:

	Three months ended March 31, 2016 (Shares)	Three months ended March 31, 2015 (Shares)
Options to purchase shares of common stock	4,380,950	380,950
Restricted stock awards – unvested	-	10,750,000
Warrants to purchase shares of common stock	6,339,498	6,339,498
Series A-1 convertible preferred shares	31,375,000	31,375,000
Series B convertible preferred shares	4,000,000	7,500,000
Series C convertible preferred shares	120,000,000	-
	166,095,448	56,345,448

13 RELATED PARTY TRANSACTIONS

On January 1, 2016, the “Company entered into a three-year Employment Agreement with C. Brian Boutte (the “Boutte Employment Agreement”) to serve as the Company’s Chief Executive Officer. Mr. Boutte will also serve as the Company’s interim Chief Financial Officer. Under the Boutte Employment Agreement, for his service as the Chief Executive Officer of the Company, Mr. Boutte will receive an annual base salary of \$265,000, a sign on bonus of \$60,000 and an annual performance bonus of up to 55% of his base salary, such bonus payable in cash or equity upon attainment of certain performance indicators established by the Company’s Board of Directors and Mr. Boutte. In connection with the entry into the Boutte Employment Agreement, Mr. Boutte was granted an option award exercisable for 3,000,000 shares of the Company’s common stock, which will vest as to 1,000,000 shares on each of the one, two and three-year anniversary of the commencement of his employment with the Company. In the event of

the sale of all of the Company's assets or any field acquired by the Company during the employment period which sale occurs after the six-month anniversary of his employment and before the two-year anniversary of his termination of employment, the Employment Agreement provides that Mr. Boutte will receive a bonus equal to 3% of net cash proceeds received by the Company from such sale after payment of certain costs and expenses. In the event that Mr. Boutte's employment is terminated Without Cause (as defined in the Boutte Employment Agreement), by Mr. Boutte for Good Reason (as defined below), Disability (as defined in the Boutte Employment Agreement) or upon his death, if any occur after the one-year anniversary of his employment, Mr. Boutte is entitled to receive a severance payment equal to one year's base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In the event of a Change of Control (as defined in the Boutte Employment Agreement), Mr. Boutte will receive a severance payment equal to one year's base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In addition, if a Change of Control occurs after the one-year anniversary of the commencement of his employment with the Company, all of Mr. Boutte's options shall immediately vest. The Boutte Employment Agreement also includes customary confidentiality obligations and inventions assignments by Mr. Boutte as well as a non-compete and non-solicitation provision. If his employment is terminated for Cause (as defined below) or by him Without Good Reason (as defined in the Boutte Employment Agreement), Mr. Boutte is entitled to receive his annual base salary through the date of termination and any bonus earned but unpaid. For purpose of the Boutte Employment Agreement, "Good Reason" is defined as (i) any material and substantial breach of the Boutte Employment Agreement by the Company; (ii) a Change in Control (as defined in the Boutte Employment Agreement) occurs and Mr. Boutte's employment is terminated at any time within the six (6) month period on or immediately following the Change in Control; (iii) a reduction in Mr. Boutte's Annual Base Salary as in effect at the time in question, or any other failure by the Company to comply with the compensation terms of the Boutte Employment Agreement; or (iv) the Boutte Employment Agreement is not assumed by a successor to the Company. For purposes of the Boutte Employment Agreement, "Cause" is defined as (i) acts of embezzlement or misappropriation of funds or fraud; (ii) conviction of a felony or other crime involving moral turpitude, dishonesty or theft; (iii) a material violation by Mr. Boutte of any provision of the Boutte Employment Agreement, including willful failure to perform assigned tasks, willful and unauthorized disclosure of Company material confidential information; (iv) being under the influence of drugs (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of Mr. Boutte's duties and that performance of his duties is affected; (v) engaging in behavior that would constitute grounds for liability for harassment (as proscribed by the U.S. Equal Employment Opportunity Commission Guidelines or any other applicable state or local regulatory body) or other egregious conduct that violates laws governing the workplace; or (vi) willful failure to perform his assigned tasks, where such failure is attributable to the fault of Mr. Boutte, gross insubordination or dereliction of fiduciary obligations which, to the extent it is curable by Mr. Boutte, is not cured by Mr. Boutte within thirty (30) days of receiving written notice of such violation by the Company.

PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 RELATED PARTY TRANSACTIONS (continued)

On March 1, 2016, the Company entered into a three-year Employment Agreement with David S. Ramsey (the “Ramsey Employment Agreement”) to serve as the Company’s Chief Operating Officer. Under the Ramsey Employment Agreement, for his service as the Chief Operating Officer of the Company, Mr. Ramsey will receive an annual base salary of \$220,000, and an annual performance bonus of up to 40% of his base salary, such bonus payable in cash or equity upon attainment of certain performance indicators established by the Company’s Board of Directors. In connection with the entry into the Ramsey Employment Agreement, Mr. Ramsey was granted an option award exercisable for 1,000,000 shares of the Company’s common stock, which will vest as to 333,334 shares on the one-year anniversary and 333,333 shares on each of the two and three-year anniversary of the commencement of his employment with the Company. In the event of the sale of all of the Company’s assets or any field acquired by the Company during the employment period which sale occurs after the six-month anniversary of his employment and before the two-year anniversary of his termination of employment, the Ramsey Employment Agreement provides that Mr. Ramsey will receive a bonus equal to 2% of net cash proceeds received by the Company from such sale after payment of certain costs and expenses. In the event that Mr. Ramsey’s employment is terminated Without Cause (as defined in the Ramsey Employment Agreement), by Mr. Ramsey for Good Reason (as defined below), Disability (as defined in the Ramsey Employment Agreement) or upon his death, if any occur after the one-year anniversary of his employment, Mr. Ramsey is entitled to receive a severance payment equal to one year’s base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In the event of a Change of Control (as defined in the Ramsey Employment Agreement), Mr. Ramsey will receive a severance payment equal to one year’s base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In addition, if a Change of Control occurs after the one-year anniversary of the commencement of his employment with the Company, all of Mr. Ramsey’s options shall immediately vest. The Ramsey Employment Agreement also includes customary confidentiality obligations and inventions assignments by Mr. Ramsey as well as a non-compete and non-solicitation provision. If his employment is terminated for Cause (as defined below) or by him Without Good Reason (as defined in the Ramsey Employment Agreement), Mr. Ramsey is entitled to receive his annual base salary through the date of termination and any bonus earned but unpaid. For purposes of the Ramsey Employment Agreement, “Good Reason” is defined as (i) any material and substantial breach of the Ramsey Employment Agreement by the Company; (ii) a Change in Control (as defined in the Ramsey Employment Agreement) occurs and Mr. Ramsey’s employment is terminated at any time within the six (6) month period on or immediately following the Change in Control; (iii) a reduction in Mr. Ramsey’s Annual Base Salary as in effect at the time in question, or any other failure by the Company to comply with the compensation terms of the Employment Agreement; or (iv) the Ramsey Employment Agreement is not assumed by a successor to the Company. For purposes of the Employment Agreement, “Cause” is defined as (i) acts of embezzlement or misappropriation of funds or fraud; (ii) conviction of a felony or other crime involving moral turpitude, dishonesty or theft; (iii) a material violation by Mr. Ramsey of any provision of the Ramsey Employment Agreement, including willful failure to perform assigned tasks, willful and unauthorized disclosure of Company material confidential information; (iv) being under the influence of drugs (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of Mr. Ramsey’s duties and that performance of his duties is affected; (v) engaging in behavior that would constitute grounds for liability for harassment (as proscribed by the U.S. Equal Employment Opportunity Commission

Guidelines or any other applicable state or local regulatory body) or other egregious conduct that violates laws governing the workplace; or (vi) willful failure to perform his assigned tasks, where such failure is attributable to the fault of Mr. Ramsey, gross insubordination or dereliction of fiduciary obligations which, to the extent it is curable by Mr. Ramsey, is not cured by Mr. Ramsey within thirty (30) days of receiving written notice of such violation by the Company.

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 COMMITMENTS AND CONTINGENCIES

The Company disposed of its Crystal Magic, Inc. subsidiary effective December 31, 2013. In terms of the sale agreement entered into by the Company, the purchaser has been indemnified against all liabilities whether contingent or otherwise, claimed by third parties, this includes claims by creditors of the Company amounting to \$372,090 and claims against long-term liabilities of \$848,916. Management does not consider it likely that these claims will materialize and accordingly no provision has been made for these contingent liabilities.

The Company leases a loft space in Houston, Texas from a related party in terms of a lease agreement entered into on September 1, 2015 and expiring on May 31, 2016. The lease provides for automatic renewal on a month to month basis unless 60 days' written notice is given to terminate the lease, the requisite notice has been given and the lease will terminate on May 31, 2016. The monthly rental is \$3,260 per month.

The future minimum lease installments under this agreement as of March 31, 2016 to May 31, 2016 is \$6,520.

The Company is committed to investing a further \$300,000 in NENA, over and above the \$900,000 invested in NENA as of March 31, 2016, based on their cash flow needs.

The Company entered into lease agreement for approximately 3,733 square feet of office and warehouse space in Houston, the term of the lease is for 39 months and eighteen days commencing on March 14, 2016 and terminating June 30, 2019. The lease provides for the first full month (April 2016) to be rent free, the fourteenth month to be rent free and the twenty-seventh month to be rent free. Monthly rentals, including estimated operating costs, for the first 12 months, excluding the free rental month amount to approximately \$3,410 per month, escalating at a rate of 1.7% per annum, after excluding the free rental months.

The future minimum lease installments under this agreement as of March 31, 2016 to June 30, 2019 is approximately \$126,837.

The future minimum operating lease commitments are as follows:

	Amount
2016	\$33,796
2017	37,916
2018	38,504
2019	21,162
	\$131,378

In terms of the license agreement commitments disclosed in note 5 above, the minimum commitments due under the amended license agreement entered into on January 30, 2013, for the next five years, are summarized as follows:

	Amount
2016	\$500,000
2017	500,000
2018	500,000
2019	500,000
2020	500,000
	\$2,500,000

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PROPELL TECHNOLOGIES GROUP, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 JOINT VENTURE

On October 22, 2015, Novas entered into an operating agreement with Technovita (the “Joint Venture Agreement”), NENA, whereby Novas agreed to contribute \$1,200,000 (\$600,000 to be delivered on the effective date (October 22, 2015) of the Joint Venture Agreement, \$300,000 on November 1, 2015 and \$300,000 on the two month anniversary of the Effective Date) to the capital of NENA for 60% of the membership interests of NENA and Technovita agreed to contribute an aggregate of \$800,000 to the capital of NENA for 40% of the membership interests of NENA. In terms of a side agreement entered into on November 18, 2015, the revenue and expenses incurred by Technovita and the Company prior to entering into the operating agreement, have been included in the joint venture and consolidated into the Company’s results effective September 1, 2015. To date, Novas contributed \$900,000 to the capital of NENA and Technovita contributed \$600,000.

Subject to certain exceptions and pursuant to the terms of a sublicense agreement (the “Novas Sublicense Agreement”) that was entered into between Novas, NENA and Novas Energy Group Inc. (the “Licensor”), the licensor of Plasma Pulse Technology currently used by Novas and Technovita, NENA will be the exclusive provider of the Vertical Technology (as defined in the Joint Venture Agreement) to third parties in the United States. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the “Technovita Sublicense Agreement”) that was entered into between Technovita, NENA and Licensor, NENA is the exclusive provider of the Vertical Technology to third parties in Canada. Notwithstanding the foregoing, both Novas and Technovita will retain the right to deploy the Vertical Technology on wells owned by Novas or Technovita in the United States or Canada, respectively. If either Novas or Technovita terminates the Sublicense Agreement with NENA and Licensor, the non-terminating party will receive 100% of the terminating member’s membership interest in NENA.

The business and affairs of NENA are to be managed by or under the direction of the Board of Directors, consisting of five (5) members, three (3) of whom shall be appointed by Novas and two (2) of whom shall be appointed by Technovita. Board approval is required to: (i) incur any indebtedness, pledge or grant liens on any assets or guarantee, assume, endorse or otherwise become responsible for the obligations of any other person, except to the extent approved or authorized in NENA’s budget; (ii) make any loan, advance or capital contribution in any person, except to the extent approved or authorized in the budget; (iii) transfer any equipment necessary in the deployment of the Vertical Technology to any third party; (iv) enter into or effect any transaction or series of related transactions involving the sale of NENA or the sale, lease, license, exchange or other disposition (including by merger, consolidation, sale of assets or similar business transaction) by NENA of any assets in excess of \$300,000; (v) appoint or remove NENA’s auditors or make any changes in the accounting methods or policies of NENA (other than as required by GAAP); (vi) enter into or effect any transaction or series of related transactions involving the purchase, lease, license, exchange or other acquisition (including by merger, consolidation, acquisition of stock or acquisition of assets) by NENA of any assets and/or equity interests of any person and/ or assets in excess of \$300,000; or (v) enter

into or effect any commercial transaction or series of related commercial transactions involving anticipated liabilities or revenues of NENA in excess of \$500,000 or that materially vary from NENA's existing strategy or business plan.

16SUBSEQUENT EVENTS

In accordance with ASC 855-10, the Company has analyzed its operations subsequent to March 31, 2016 to the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements.

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

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto presented herein and the risk factors and our audited consolidated financial statements and notes thereto for the year ended December 31, 2015 and the other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2015. In addition to historical information, the following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of many factors including those discussed herein below, under Part II, Item 1A, “Risk Factors” and elsewhere herein, and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016.

Overview and Financial Condition

Our Company

Propell Technologies, Inc. intends to be an oil exploitation and production (“E&P”) company through the acquisition and growth of a base of producing assets by leveraging M&A and operational expertise, and by using advanced technology including Plasma Pulse well treatment which uses no acidization, hydrofracking or other chemicals. Through its wholly owned subsidiary, Novas Energy USA, Inc., and now through its indirect majority owned subsidiary, Novas Energy North America, LLC (“NENA”), the intention is to improve oil production using the Plasma Pulse Technology. Novas has an exclusive, perpetual license to engage in the commercial application of a unique proprietary Plasma-Pulse Treatment (the “Plasma Pulse Technology”) technology in the United States and Mexico, which it licenses from Novas Energy Group Limited (“Licensor”) and sublicenses on an exclusive basis to its majority owned subsidiary, NENA, for use in the United States and Canada. The Plasma Pulse Technology is an Enhanced Oil Recovery methodology and process that has been developed to be environmentally friendly, mobile, time efficient and cost effective. The Plasma Pulse Technology is patented in the USA. We expect the Plasma Pulse Technology to continue to drive new and renewed revenue for energy producers and we believe it has the potential to become a new standard for the entire petroleum industry.

Since February 4, 2013, following the closing of the Share Exchange Agreement with the shareholders of Novas, under which we acquired all of the outstanding equity securities of Novas in exchange for 100,000,000 shares of our common stock, and until recently our primary focus has shifted to the further development of the Plasma Pulse Technology. While we are still indirectly engaged in the oil recovery business through NENA, our primary focus is on the acquisition of oil producing properties. The oil recovery technology used by Novas is based on an exclusive, perpetual royalty-bearing license (the “License Agreement”) to engage in the commercial application of the Plasma Pulse Technology entered into on January 30, 2013, as amended in March 2014 and December 23, 2014 with Novas Energy Group Limited (“Licensor”) which granted Novas the right to use the Plasma Pulse Technology in the United

States and Mexico to enhance oil production. The license agreement provides Novas with the right to practice the licensed process and to utilize the Plasma Pulse Technology to provide services to third parties and for ourselves as well, and to sublicense the Plasma Pulse Technology in the United States.

On October 22, 2015, Novas entered into an operating agreement with Technovita Technologies USA, Inc. (“Technovita”) (the “Joint Venture Agreement”) through a newly formed Delaware limited liability company, NENA, whereby Novas agreed to contribute \$1,200,000 (\$600,000 to be delivered on the effective date (October 22, 2015) of the Joint Venture Agreement, \$300,000 on November 1, 2015 and \$300,000 on the two month anniversary of the Effective Date) to the capital of NENA for 60% of the membership interests of NENA and Technovita agreed to contribute an aggregate of \$800,000 to the capital of NENA for 40% of the membership interests of NENA. In terms of a side agreement entered into on November 18, 2015, the revenue and expenses incurred by Technovita prior to entering into the operating agreement have been included in the joint venture and consolidated into the Company’s results effective September 1, 2015. In October 2015, Novas entered into a sublicense agreement (the “Novas Sublicense Agreement”) with NENA and the Licensor pursuant to which NENA was granted the right, subject to certain exceptions to be the exclusive provider of the Plasma Pulse Technology for treatment of vertical wells to third parties in the United States. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the “Technovita Sublicense Agreement”) that was entered into between Technovita, NENA and Licensor, NENA is the exclusive provider of the Plasma Pulse Technology for treatment of vertical wells to third parties in Canada. Both Novas and Technovita will retain the right to deploy the Plasma Pulse Technology on vertical wells owned by Novas or Technovita in the United States or Canada, respectively.

Although relatively new to the United States and Mexico, the Plasma Pulse Technology has been successfully utilized outside of the United States and Mexico for several years. The Plasma Pulse Technology is patented in the USA. The process utilizes a down-hole tool that is lowered into vertical wellbores to the perforated oil producing zone. When initiated, the tool delivers metallic plasma-generated, directed, non-linear, wide-band elastic oscillations at resonance frequencies to enhance oil production using the tool developed by the Licensor and enhanced by Novas. The Plasma Pulse Technology is suitable for oil wells as deep as 12,000 feet. By optimizing production efficiency combined with the resulting increased oil production we expect to extend the economic life of mature oil fields and to recover previously unrecoverable oil efficiently.

Since March 19, 2013, Novas has used the Plasma Pulse Technology to treat over forty oil and injector wells located in eight states; Louisiana, Oklahoma, Kansas, Texas, California, Tennessee, Colorado and Wyoming. The Plasma Pulse Technology has been shown to increase oil production or injection rates in many of the wells that we have treated. The initial results of this treatment have been very encouraging, however the results on the wells treated may not be indicative of the results of treatment on additional wells. We currently have six tools that we use to perform the treatments in vertical wells with a minimum of 5 ½-inch and 4 ½ casings, but not in horizontal wells.

Initially we offered our services to independent oil wells based on a joint venture model in which we received a percentage of the revenue that our customers derived from additional production resulting from the use of the Plasma Pulse Technology, we have not concluded any further agreements under this joint venture model. We also offered our services on a fee-based model and charged a service fee for use of the Plasma Pulse Technology. In 2014 we treated sixteen wells for service fees. Pursuant to the terms of the Novas Sublicense Agreement, we transferred our exclusive right to utilize the Plasma Pulse Technology to treat vertical wells in the United States to NENA. As such, NENA now has the exclusive right to use the Plasma Pulse Technology for treatment of vertical wells in the United States. We retained, however, the right to utilize the Plasma Pulse Technology to treat wells that we acquire in the United States.

To date NENA has treated a total of thirteen wells, three in the USA, one in Colorado and two in Kansas and ten in Alberta, Canada.

In addition, it is our intention to acquire producing oil fields to generate revenues and we may use the Plasma Pulse Technology on our acquired wells to increase their production.

To date, we derived \$431,431 in revenue from our oil enhancement business. We have financed our operations primarily from sales of our securities, both debt and equity, and to a lesser extent revenue from operations and we expect to continue to obtain required capital in a similar manner. We have incurred an accumulated deficit of \$15,191,784 through March 31, 2016 and there can be no assurance that we will be able to achieve profitability.

Management Discussion and Analysis of financial condition

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statement as of March 31, 2016 and 2015, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

Results of Operations for the three months ended March 31, 2016 and March 31, 2015

Net revenues

Net revenues were \$82,237 and 82,500 for the three months ended March 31, 2016 and 2015 respectively, a decrease of \$263 or 0.3%. All of the revenue during the quarter has been derived from the NENA joint venture in which we have a 60% share. In the prior year we had derived \$82,500 of revenue from the treatment of well by Novas, our wholly owned subsidiary. Due to the current market conditions in the oil industry, our ability to generate significant revenues remains very limited.

Cost of goods sold

Cost of goods sold was \$110,047 and \$57,823 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$52,224 or 90.3%. Cost of goods sold during the current year, primarily represents treatment costs incurred by NENA in treating wells in Canada and the USA, there were several wells treated with no revenue generated. In the prior year the cost of sales consisted primarily of engineering services provided by third party contractors and a provision for royalty expense on wells treated by Novas.

Gross loss

Gross loss (profit) was \$(27,810) and \$24,677 for the three months ended March 31, 2016 and 2015, respectively, a decrease of \$52,487, primarily due to the treatment of several wells under the NENA joint venture which resulted in no revenues.

Total expenses

Total expenses were \$1,219,849 and \$666,239 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$553,610 or 83.1%. Total expenses consisted primarily of the following:

Stock based compensation expense was \$19,757 and \$241,286 for the three months ended March 31, 2016 and 2015, respectively, a decrease of \$221,529. The current year consists of a charge for stock options issued to our CEO and COO during the current quarter. The prior year consists of a charge of \$241,284 for restricted stock issued to our Chief Executive Officer, John Huemoeller and one of our directors, John Zotos. The charge for restricted stock was fully amortized at December 31, 2015.

Professional fees were \$107,674 and \$155,731 for the three months ended March 31, 2016 and 2015, respectively, a decrease of \$48,057 or 30.9%. The decrease is primarily due to a decrease in; i) legal fees of \$65,021 due to non-recurring work performed on the joint venture agreements by our legal counsel; ii) a decrease in once-off patent legal costs of \$11,133 incurred to patent the plasma pulse technology in the USA, and iii) offset by an increase in other professional fees of \$25,082 primarily due to an increase in audit fees and other accounting fees incurred on the NENA joint venture.

Business development expenditure totaled \$148,750 and \$0 for the three months ended March 31, 2016. The business development expenditure relates to the treatment of several wells by NENA as a marketing tool and to prove NENA's abilities, in an effort to generate a sustainable revenue stream.

Consulting fees totaled \$440,819 and \$94,387 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$346,432 or 367.0%. The increase is primarily due to consulting and contracting fees incurred in NENA, the services provided by NENA, as well as some administrative functions that are performed by outside contractors and consultants. The NENA joint venture has only been operational since the third quarter of the prior year.

General and administrative expenditure was \$462,862 and \$141,805 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$321,057 or 226.4%. This increase is primarily due to the following; i) an increase in payroll expenses of \$174,658 due to payroll expenses of \$58,257 incurred by NENA, a once off signing bonus of \$60,000 paid to our new CEO and an increase in salary expenditure, including benefits expenditure, due to the employment of our new CEO in January 2016 and a COO in March 2016, previously we did not have a COO function; ii) an increase in Investor relations expenditure of \$31,224 due to a new contract entered into with an investor relations firm which required an upfront payment and a monthly fee; iii) an increase in insurance expenditure of \$24,313 due to an increase in the level of D&O coverage; iv) an increase in building rental expense of \$17,143 due to rental expense incurred by NENA and an increase in the rental expense incurred for an apartment leased for John Huemoeller; and v) an increase in franchise taxes paid to Delaware based on the number of shares outstanding, which number had increased due to the issuance of the additional 4,500,000 preferred shares in the prior year and the issuance of 13,000,000 restricted common stock to two directors.

Depreciation and amortization expense was \$34,088 and 32,433 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$1,655 or 5.1%. This increase is primarily due to minor other asset acquisitions during the current year.

Other income

Other income was \$200,010 and \$0 for the three months ended March 31, 2016 and 2015, respectively, an increase of \$200,010 was primarily due to the forgiveness of the once off license fee for the Mexican market, which was due in June 2015.

Amortization of debt discount and finance costs

Amortization of debt discount and finance costs was \$0 and \$53,100 for the three months ended March 31, 2016 and 2015, respectively. All debt was repaid during the first quarter of the prior year, all interest due was repaid and the remaining debt discount was fully amortized.

Change in fair value of derivatives

The change in fair value of derivative liabilities was \$0 and \$18,455 for the three months ended March 31, 2016 and 2015 respectively, a decrease of \$18,455. In the prior year the derivative liability movement reflected the mark-to-market of equities issued to short-term note holders who converted their debt to equity at deeply discounted prices based on variable priced conversion rates which was offset by a mark-to-market credits on the remaining short-term convertible notes.

Net loss

We incurred a net loss of \$1,047,649 and \$676,207 for the three months ended March 31, 2016 and 2015, an increase of \$371,442 or 54.9%, respectively and which consists of the various items discussed above.

Net loss attributable to non-controlling interest

The net loss attributable to non-controlling interest represents the remaining interest of Technovita in the joint venture. Technovita owns 40% of the joint venture, the Technovita share of the losses in the joint Venture amount to \$265,549, however this is limited to the total remaining investment of \$249,339.

Deemed preferred stock dividend

A deemed preferred stock dividend of \$1,101,696 has been disclosed in the statement of operations for the three months ended March 31, 2015. This amount represents the in-the-money value of the conversion feature of the Series C Preferred Stock as of the date of issue. These shares of Series C Preferred Stock is convertible into common stock at an exercise price of \$0.12291665 per share.

Undeclared Series B and Series C Preferred stock dividends

A deemed preferred stock dividend of \$156,071 and \$82,575 has been disclosed for the three months ended March 31, 2016 and 2015, respectively. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders for the three months ended March 31, 2016 and 2015.

Liquidity and Capital Resources.

To date, our primary sources of cash have been funds raised from the sale of our securities and the issuance of convertible and non-convertible debt. No additional funds were raised during the current financial period.

We have spent \$144,663 on plant and equipment for the three months ended March 31, 2016, primarily on new down hole tools acquired.

We have incurred an accumulated deficit of \$15,191,784 through March 31, 2016 and incurred negative cash flow from operations of \$1,044,949 for the three months ended March 31, 2016. We have spent, and need to continue to spend, substantial amounts in connection with implementing our new business strategy.

Our primary commitments include the minimum commitments under the license agreements and our commitment to invest an additional \$300,000 into the joint venture based on their cash flow needs. Based upon our current plans, we believe that our cash will be sufficient to enable us to meet our anticipated operating needs for at least the next twelve months, subject to any property acquisition.

Our minimum commitments under the License Agreement for the next five years (assuming the Novas Sublicense Agreement remains in effect and the \$500,000 annual royalty payment with respect to the United States territory is not required to be paid), is summarized as follows:

	Amount
2016	\$500,000
2017	500,000
2018	500,000
2019	500,000
2020	500,000
	\$2,500,000

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

None.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”), who also serves as our principal financial and accounting officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO who also serves as our principal financial and accounting officer concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company’s disclosure controls and procedures as of March 31, 2016 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO, as appropriate, to allow timely decisions regarding required disclosure. The Company intends to retain additional individuals to remedy the ineffective controls. We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

(b) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2016 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

None.

Item 1A. Risk Factors

Investing in our Company involves a high degree of risk. In addition to the risks related to our business set forth in this Form 10-Q, you should carefully consider the risks described below before investing in our Company. Additional risks, uncertainties and other factors not presently known to us or that we currently deem immaterial may also impair our business operations.

Risks Relating to Our Company

Our business is difficult to evaluate because we are currently focused on a new line of business and a new business strategy and have very limited operating history and limited information.

We have recently engaged in a new business line involving our Plasma Pulse Technology. We have also recently switched our business model with our entry into a Joint Venture Agreement with Technovita. There is a risk that the joint venture will be unable to successfully operate this new line of business or be able to successfully integrate it with Technovita's management and structure. The joint venture estimates of capital, personnel and equipment required for our new line of business are based on the experience of management and businesses they are familiar with. The joint venture management has limited direct experience in this new line of business. The joint venture is subject to the risks such as their ability to implement their business plan, market acceptance of the proposed business and services, under-capitalization, cash shortages, limitations with respect to personnel, financing and other resources, competition from better funded and experienced companies, and uncertainty of their ability to generate revenues. There is no assurance that the joint venture activities will be successful or will result in any revenues or profit, and the likelihood of their success must be considered in light of the stage of development. To date, we have not derived any revenue from the joint venture. Even if the joint venture generates revenue, there can be no assurance that it will be profitable. In addition, no assurance can be given that the joint venture will be able to consummate its business strategy and plans, as described herein, or that financial, technological, market, or other limitations may force the joint venture to modify, alter, significantly delay, or significantly impede the implementation of such plans. The joint venture has

insufficient results for investors to use to identify historical trends or even to make quarter-to-quarter comparisons of its operating results. You should consider our prospects in light of the risk, expenses and difficulties we will encounter as an early stage company. Our revenue and income potential is unproven and our business model is continually evolving. We are subject to the risks inherent to the operation of a new business enterprise, and cannot assure you that we will be able to successfully address these risks.

We currently have limited revenues from our Plasma Pulse Technology and may not generate any revenue in the near future, if at all, from the use of our technology.

We currently have generated limited revenues from the use of our Plasma Pulse Technology. To date, we have not derived any revenue from the joint venture. The majority of the wells that were treated were treated as sample wells to demonstrate the ability of the Plasma Pulse Technology at no cost to the well owner. Therefore, there can be no assurance that well owners will determine that the price to be paid by the joint venture customers for their services, whether in the form of a cash payment or profit sharing arrangement, will be deemed to be reasonable and that customers will be willing to pay such prices.

We may not be profitable.

We expect to incur operating losses for the foreseeable future. For the three months ended March 31, 2016 and for the twelve months ended December 31, 2015, respectively, we had net revenues of \$82,237 and \$82,500 from our plasma pulse oil recovery business. For the three months ended March 31, 2016 we have sustained a net loss of \$1,047,649 and for the years ended December 31, 2015 and 2014, we sustained a net loss of \$4,331,980 and \$5,018,483, respectively. To date, we have not generated significant revenue from the Plasma Pulse Technology and NENA has not generated any significant revenues from the Plasma Pulse Technology. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business and our recent changes in business strategy.

Our future plans and operations may require that we raise additional capital.

To date, we have not generated enough revenue from operations to pay all of our expenses. During the year ended December 31, 2015 and the year ended December 31, 2014 we raised a total of \$14,750,000 from our private placement of Series C Preferred stock to Ervington consummated during February and June 2015. We have used the funds raised in our financings for working capital purposes and intend to acquire an oil well with the funds that were recently raised. However, there can be no assurance that we will be able to achieve our goals with the cash on hand or the cash generated from operations.

The joint venture may not be able to service customers with the six tools that we currently have.

The joint ventures ability to continue to service customers and expand its business is dependent upon it acquiring additional apparatuses to be utilized with the Plasma Pulse Technology. We currently have six down-hole tools that can treat 5 ½ inch and 4 ½-inch cased wells.. If the tools should require repair the joint venture may be unable to service customers. In addition, with only six tools, the joint venture can only treat a limited number of wells at a time and are unable to treat wells on days when the tools are in transit from one customer's well to another well.

There is no guarantee that the planned joint venture will be successful.

To date, Technovita has treated very limited wells with the Plasma Pulse Technology and therefore there is no guarantee that the Technovita team will be successful in meeting its milestones. Due to limited data about well treatment it is difficult to assess the revenue to be derived from the Canadian wells, which may not perform as expected and may contribute less than 40% to the revenue of the planned joint venture. We will only have a 60% interest in revenue derived from treatment of U.S. wells instead of our current 100% interest. Although Novas has the right to terminate the joint venture if certain milestones are not met, if the milestones are met there can be no assurance that the revenue derived from U.S. wells will not exceed 60% of the revenue of the joint venture. We did not receive a valuation or fairness opinion regarding the joint venture and Novas' percent ownership in the joint venture. To date, we have contributed \$900,000 to the joint venture and are required to contribute an additional \$300,000 to the joint venture that may not be recovered in the event that the joint venture dissolves. In addition, the joint venture will bear the additional costs associated with the additional Technovita management team.

There is uncertainty as to market acceptance of the Plasma Pulse Technology and products.

The Plasma Pulse Technology that we license has been utilized in the United States on a limited basis. NENA has not yet generated any revenue from the Plasma Pulse Technology and prior to sublicensing the Plasma Pulse Technology to NENA, we had not generated significant revenue from the Plasma Pulse Technology and there can be no assurance that the Plasma Pulse Technology will be accepted in the market or that NENA's commercialization efforts will be successful.

The results of the application of our technology for initial well treatments may not support future well treatments and are not necessarily predictive of future long-term results on the wells for which the initial data is favorable.

To date, we have applied the licensed Plasma Pulse Technology to treat over forty wells in the USA and an additional twelve wells in Canada, and we do not have long terms results on the wells that were treated. Of such wells, we have seen improvement results in many wells. Favorable results in our early treatments may not last and may not be repeated in later treatments of other wells. Success in early treatments does not ensure that wells treated at a later date will be successful. Additionally, collecting treatment data results is not always possible as operators that pay for the service are not required to deliver data or we are required to work under non-disclosure agreements.

We rely on a license to use the Plasma Pulse Technology that is material to our business and if the agreement were to be terminated, it would halt our ability to market our technology, as well as have an immediate material adverse effect on our business, operating results and financial condition.

We have a License Agreement with the Licensor granting us the right to use certain critical intellectual property, which we have sub-licensed to NENA. If we or NENA breach the terms of this agreement, including any failure to make minimum royalty payments required thereunder, the Licensor has the right to terminate the license. If we or NENA were to lose or otherwise be unable to maintain this license on acceptable terms, or find that it is necessary or appropriate to secure new licenses from other third parties, it would halt our ability or that of NENA to market the Plasma Pulse Technology, which would have an immediate material adverse effect on our business, operating results and financial condition.

We may be unable to generate sufficient revenues to meet the minimum royalties under our license agreement.

The License Agreement with the Licensor requires us to pay aggregate minimum royalty payments of \$1,000,000 per year; however, no minimum royalty payment is due prior to (i) December 31, 2015 with respect to Mexican operations and (ii) the three-year anniversary of the license agreement with respect to the United States operations and provided further that the \$500,000 due for operations in the United States is not required to be paid under the terms of the Novas Sublicense Agreement so long as the Novas Sublicense Agreement remains in effect. If the minimum royalty is not timely paid, the Licensor has the right to terminate the license agreement with respect to a certain territory under certain circumstances and in certain other circumstances has the right to terminate the entire agreement. Subsequent to year end, the \$200,000 due with respect to our license to operate in Mexico was waived. To date, we have not generated enough revenue to pay minimum royalty payments. No assurance can be given that the joint venture or we will generate sufficient revenue to make these minimum royalty payments. Any failure to make the payments would permit the Licensor to terminate the license. If we were to lose or otherwise be unable to maintain this license, it would halt our ability to market our technology, which would have an immediate material adverse effect on our business, operating results and financial condition.

The beneficial ownership of a significant percentage of our common stock gives Ervington effective control of us, and limits the influence of other shareholders on important policy and management issues.

Ervington currently beneficially owns approximately 50.9% of our voting shares on a fully diluted basis (including outstanding options, warrants and convertible instruments). In addition, Ervington currently has the right to three votes on our board of directors and has appointed two members with an aggregate of three votes, which constitutes a majority of the votes on our board of directors. As a result of these appointment rights and its voting control of our company, Ervington has the power to control the outcome of all matters submitted to our shareholders for approval, including the election of our directors, our business strategy, our day-to-day operations and any proposed merger, consolidation or sale of all or substantially all of our assets. Ervington's control of our company could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, preventing a change in control of our company that might be otherwise beneficial to our shareholders, and possibly depress the trading price of our common stock. There can be no assurance that conflicts of interest will not arise with respect to Ervington's ownership and control of our company or that any conflicts will be resolved in a manner favorable to the other shareholders of our company.

Trends in oil and natural gas prices affect the level of exploration, development, and production activity of our customers and the demand for our services and products, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Demand for the services and products of the joint venture or oil derived from wells we acquire is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. The level of exploration, development, and production activity is directly affected by trends in oil and natural gas prices, which historically have been volatile and are likely to continue to be volatile.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other economic factors that are beyond our control. The recent decline in oil prices from \$80 per barrel in December 2014 to \$40 per barrel in December 2015 has resulted in a decline in oil drilling which has depressed the immediate level of exploration, development, and production activity, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. Even the perception of longer-term lower oil and natural gas prices by oil and natural gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and natural gas include:

- the level of supply and demand for oil and natural gas, especially demand for natural gas in the United States;
- governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;
- weather conditions and natural disasters;
- worldwide political, military, and economic conditions;

- the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;
- oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the cost of producing and delivering oil and natural gas; and
- potential acceleration of development of alternative fuels.

Legislative and regulatory changes affecting the environment and the oil industry could adversely affect our business

Political, economic and regulatory influences are subjecting oil recovery efforts to potential fundamental changes that could substantially affect our results of operations. State and local governments, for example, continue to propose and pass legislation designed to reduce the impact of oil recovery efforts on the environment. We cannot predict the effect any legislation may have on our business and we can offer no assurances they will not have a material adverse effect on our business.

Various federal legislative and regulatory initiatives have been undertaken which could result in additional requirements or restrictions being imposed on hydraulic fracturing operations and possibly our operations. For example, the Department of Interior has issued proposed regulations that would apply to hydraulic fracturing operations on wells that are subject to federal oil and gas leases and that would impose requirements regarding the disclosure of chemicals used in the hydraulic fracturing process as well as requirements to obtain certain federal approvals before proceeding with hydraulic fracturing at a well site. These regulations, if adopted, could also be applicable to our operations and would establish additional levels of regulation at the federal level that could lead to operational delays and increased operating costs. At the same time, legislation and/or regulations have been adopted in several states that require additional disclosure regarding chemicals used in the hydraulic fracturing process but that include protections for proprietary information. Legislation and/or regulations are being considered at the state and local level that could impose further chemical disclosure or other regulatory requirements (such as restrictions on the use of certain types of chemicals or prohibitions on hydraulic fracturing operations and competitive operations in certain areas) that could affect our operations.

The adoption of any future federal, state, local, or foreign laws or implementing regulations imposing reporting obligations on, or limiting or banning, the hydraulic fracturing process if applicable to competitive processes such as ours, could make it more difficult to complete natural gas and oil wells and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Liability for cleanup costs, natural resource damages, and other damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We will be exposed to claims under environmental requirements for wells we acquire and treat and the joint venture will be exposed to claims under environmental requirements for wells it treats. In the United States, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we or the joint venture could be exposed to liability for cleanup costs, natural resource damages, and other damages as a result of our or the joint ventures conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Existing or future laws, regulations, related to greenhouse gases and climate change could have a negative impact on our business and may result in additional compliance obligations with respect to the release, capture, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Changes in environmental requirements related to greenhouse gases and climate change may negatively impact demand for the services of the joint venture. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). State, national, and international governments and agencies have been evaluating climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which we conduct business. Because our business depends on the level of activity in the oil and natural gas industry, existing or future laws, regulations, treaties, or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our business if such laws, regulations, treaties, or international agreements reduce the worldwide demand for oil and natural gas. Likewise, such restrictions may result in additional compliance obligations with respect to the release, capture, sequestration, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Our failure to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position.

We rely on a variety of intellectual property rights that the joint venture uses in its services and products. We may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which our services and products may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Our failure to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position and that of the joint venture.

Any future recompletion activities engaged upon by us on wells that we acquire may not be productive.

We may acquire properties upon which we believe recompletion activity will be successful. Recompletion or workovers on oil and natural gas wells involves numerous risks, including the risk that we will not encounter commercially productive oil or natural-gas reservoirs. The costs of recompleting, and operating wells are often uncertain, and operations may be curtailed, delayed, or canceled as a result of a variety of factors, including the following unexpected drilling conditions:

- pressure or irregularities in formations;
- equipment failures or accidents;
- fires, explosions, blowouts, and surface cratering;
- difficulty identifying and retaining qualified personnel;
- title problems;
- other adverse weather conditions; and
- shortages or delays in the delivery of equipment

Certain of our future activities may not be successful and, if unsuccessful, this failure could have an adverse effect on our future results of operations and financial condition.

We intend to become an exploitation and production stage company.

We intend to use the proceeds from the sale of our Series C Preferred Stock to acquire oil fields and intend to become an exploitation and production stage company which will face a high risk of business failure because of the unique difficulties and uncertainties inherent in oil and gas exploitation ventures. Potential investors should be aware of the risks and uncertainties normally encountered by oil and gas companies and the high rate of failure of such companies. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays that could be encountered in connection with our planned exploitation and followed drilling. These potential problems include, but are not limited to, possible problems relating to exploitation and additional costs and expenses that may reduce our current forecast of income and asset value. Additional expenditures related to exploitation may not result in the confirmation of anticipated oil and gas reserves. Problems such as unusual or unexpected formations and other conditions are involved in mineral development and often result in unsuccessful efforts. The acquisition of additional fields will be dependent upon us possessing capital resources at that time in order to purchase and/or maintain such concessions. If no funding is available, we may be forced to cease our exploitation activities.

Our anticipated future oil drilling and producing operations will involve various risks.

Once we acquire wells and commence oil exploitation activities, we will be subject to all the risks normally incident to the operation and development of oil and natural gas properties, including:

- well blowouts, cratering, explosions and human related accidents

- mechanical, equipment and pipe failures

- adverse weather conditions and natural disasters

- civil disturbances and terrorist activities

- oil and natural gas price reductions

- environmental risks stemming from the use, production, handling and disposal of water, waste materials, hydrocarbons and other substances into the air, soil or water title problems

- limited availability of financing

- marketing related infrastructure, transportation and processing limitations

- regulatory compliance issues

We intend to maintain insurance against many potential losses or liabilities arising from well operations in accordance with customary industry practices and in amounts believed by management to be prudent. However, insurance will not protect us against all risks.

Uncertainty of economic conditions, worldwide and in the United States may have a significant negative effect on operating results, liquidity and financial condition.

Effects of change in domestic and international economic conditions could include a decline in demand for oil and natural gas resulting in decreased oil, and natural gas reserves due to curtailed drilling activity; A decline in reserves would lead to a decline in production, and either a production decline, or a decrease in oil, and natural gas prices, would have a negative impact on our cash flow, profitability and value.

There is competition in the oil and gas industry for acquisition of oil wells and we have limited financial and personnel resources with which to compete.

Competition in the oil and gas industry is extremely intense in all aspects, including but not limited to raising investment capital and obtaining qualified managerial and technical employees. We are an insignificant participant in the oil and gas industry due to our limited financial and personnel resources. Our competition includes large established oil and gas companies, with substantial capabilities and with greater financial and technical resources than we have, as well as the myriad of other small stage companies. These companies are able to pay more for development prospects and productive oil and natural gas properties and are able to define, evaluate, bid for, purchase and subsequently drill a greater number of properties and prospects than our financial or human resources permit. As a result of this competition, we may be unable to attract the necessary funding or qualified personnel. If we are unable to successfully compete for funding or for qualified personnel, our activities may be slowed, suspended or terminated, any of which would have a material adverse effect on our ability to continue operations.

Shortages of oil field equipment, services, qualified personnel and resulting cost increases could adversely affect results of operations.

The demand for qualified and experienced field personnel, geologists, geophysicists, engineers and other professionals in the oil and natural gas industry can fluctuate significantly, often in correlation with oil and natural gas prices, resulting in periodic shortages. When demand for rigs and equipment increases due to an increase in the number of wells being drilled, there have been shortages of drilling rigs, hydraulic fracturing equipment and personnel and other oilfield equipment. Higher oil and natural gas prices generally stimulate increased demand for, and result in increased prices of, drilling rigs, crews and associated supplies, equipment and services. These shortages or price increases could negatively affect the ability to drill wells and conduct ordinary operations by the operators of the Company's wells, resulting in an adverse effect on the Company's financial condition, cash flow and operating results.

Our operations will be subject to permitting requirements.

Oil drilling operations will be subject to permitting requirements, which could require us to delay, suspend or terminate our operations. Our operations, including but not limited to any exploitation program, require permits from the U.S. government. We may be unable to obtain these permits in a timely manner, on reasonable terms, or at all. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving these permits, our timetable and business plan for exploration and/or exploitation, may be materially and adversely affected.

Our operations will be subject to permitting requirements.

Oil drilling operations will be subject to permitting requirements, which could require us to delay, suspend or terminate our operations. Our operations, including but not limited to any exploitation program, require permits from the U.S. government. We may be unable to obtain these permits in a timely manner, on reasonable terms, or at all. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving these permits, our timetable and business plan for exploration and/or exploitation, may be materially and adversely affected.

International expansion of our business exposes us to business, regulatory, political, operational, financial and economic risks associated with doing business outside of the United States.

Our amended license agreement grants us a license, which has been sub-licensed to NENA, to utilize the Plasma Pulse Technology in Mexico and the joint venture is anticipated to conduct business in Canada. Doing business internationally involves a number of risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;
- failure by us or NENA to obtain regulatory approvals for the sale or use of our technology in various countries;
- difficulties in managing foreign operations;
- financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;

·reduced protection for intellectual property rights;

·natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and

·failure to comply with the Foreign Corrupt Practices Act, including its books and records provisions and its anti-bribery provisions, by maintaining accurate information and control over activities.

Any of these risks, if encountered, could significantly harm the future international expansion and operations of the joint venture and, consequently, have a material adverse effect on our financial condition, results of operations and cash flows.

We will have limited control over the activities on properties for which we own an interest but we do not operate.

We may acquire interests in oil wells that will be operated by other companies. We will have limited ability to influence or control the operation or future development of these non-operated properties or the amount of capital expenditures that we are required to fund with respect to them. Our dependence on the operator and other working interest owners for these projects and our limited ability to influence or control the operation and future development of these properties could materially adversely affect the realization of our targeted returns on capital and lead to unexpected future costs.

The loss of key personnel and an inability to attract and retain additional personnel could affect our ability to successfully grow our business.

We are highly dependent upon the continued service and performance of our senior management. The loss of any key employees may significantly delay or prevent the achievement of our business objectives. We believe that our future success will also depend in part on our and their continued ability to identify, hire, train and motivate qualified personnel. We face intense competition for qualified individuals. We may not be able to attract and retain suitably qualified individuals who are capable of meeting our growing operational and managerial requirements, or we may be required to pay increased compensation in order to do so. Our failure to attract and retain qualified personnel could impair our ability to implement our business plan.

We may be adversely affected by actions of our competitors.

The market in the oil and gas recovery industry is highly competitive. Many of our competitors have substantially greater financial, technical and other resources than we have. We face competition from owners of oil wells as well as large oil and gas companies. The ability of the joint venture to compete effectively depends in part on market acceptance of our technology, the environmental impact of our technology and the joint ventures ability to service its customers in a timely manner. There can be no assurance that the joint venture will be able to compete effectively or that it will respond appropriately to industry trends or to activities of competitors.

Most of the potential customers of the joint venture are owners of oil wells and are subject to risks faced by those industries.

We expect the joint venture to derive a significant portion of our future revenues from the implementation of the Plasma Pulse Technology. As a result, it will be subject to risks and uncertainties that affect the oil industry, such as availability of capital, weather and environmental issues, government regulation, and the uncertainty resulting from technological change.

We have no separate independent audit committee. Our full Board of Directors functions as our audit committee and is composed of four directors, none of whom are considered to be independent. This may hinder our Board of Directors' effectiveness in fulfilling the functions of the audit committee.

Currently, we have no separate audit committee. Our full Board of Directors functions as our audit committee and is comprised of four directors, one of whom has two votes and none of whom are considered to be "independent" in accordance with the requirements of Rule 10A-3 under the Exchange Act. An independent audit committee plays a crucial role in the corporate governance process, assessing the Company's processes relating to its risks and control environment, overseeing financial reporting, and evaluating internal and independent audit processes. The lack of an independent audit committee may prevent the Board of Directors from being independent from management in its judgments and decisions and its ability to pursue the committee's responsibilities without undue influence. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified, independent directors, the management of our business could be compromised.

Our Board of Directors, which does not have a majority of independent directors, acts as our compensation committee, which presents the risk that compensation and benefits paid to these executive officers that are board members and other officers may not be commensurate with our financial performance.

A compensation committee consisting of independent directors is a safeguard against self-dealing by company executives. Our Board of Directors acts as the compensation committee and determines the compensation and benefits of our executive officers, administers our employee stock and benefit plans, and reviews policies relating to the compensation and benefits of our employees. Although all board members have fiduciary obligations in connection with compensation matters, our lack of an independent compensation committee presents the risk that our executive officers on the board may have influence over their personal compensation and benefits levels that may not be commensurate with our financial performance.

Trading on the OTCQB may be sporadic because it is not a stock exchange, and stockholders may have difficulty reselling their shares.

Trading in stock quoted on the OTCQB is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. Moreover, the OTCQB is not a stock exchange, and trading of securities on the OTCQB is often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like NYSE. Accordingly, you may have difficulty reselling any of the shares you purchase from the selling stockholders.

We cannot guarantee that an active trading market will develop for our common stock.

There currently is not an active public market for our common stock and there can be no assurance that a regular trading market for our common stock will ever develop or that, if developed, it will be sustained. Therefore, purchasers of our common stock should have long-term investment intent and should recognize that it may be difficult to sell the shares, notwithstanding the fact that they are not restricted securities. We cannot predict the extent to which a trading market will develop or how liquid a market might become.

There may be future dilution of our common stock.

If we sell additional equity or convertible debt securities, those sales could result in additional dilution to our stockholders. Holders of our Series A-1 Preferred Stock have the right to convert their shares into 31,375,000 shares of common stock and; the holder of the Series B Preferred Stock has the right to convert his shares into 4,000,000 common shares and Ervington, the sole holder of the Series C Preferred Stock has the right to convert its shares of Series C Preferred Stock into 120,000,000 shares of common stock. We also have warrants outstanding that are convertible into 6,339,498 shares of our common stock.

Recent accounting changes may make it more difficult for us to sustain profitability.

We are a publicly traded company, and are therefore subject to the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), which requires that our internal controls and procedures comply with Section 404 of the Sarbanes-Oxley Act. We expect compliance to be costly and it could impact our results of operations in future periods. In addition, the Financial Accounting Standards Board now requires us to follow the accounting standards on share based payments. Under this rule, companies must calculate and record in their statement of operations the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services. We expect that we will use stock options to attract, incentivize and retain our employees and will therefore incur the resulting stock-based compensation expense. This will continue to adversely affect our operating results in future periods.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of an exchange or the OTCQB. The requirements of these rules and regulations will likely continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and effective internal control over financial reporting. Significant resources and management oversight are required to design, document, test, implement and monitor internal control over relevant processes and to, remediate any deficiencies. As a result, management’s attention may be diverted from other business concerns, which could harm our business, financial condition and results of operations. These efforts also involve substantial accounting related costs.

We have identified material weaknesses in our internal controls, and we cannot provide assurances that these weaknesses will be effectively remediated or that additional material weaknesses will not occur in the future. If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud, or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. We have identified material weaknesses in our internal controls with respect to our financial statement for the year ended December 31, 2014. Our management discovered insufficient controls over review and accounting for certain complex transactions and a lack of segregation of duties.

The design of monitoring controls used to assess the design and operating effectiveness of our internal controls is inadequate.

We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

We have never paid dividends and have no plans to pay dividends on our common stock in the future.

Holders of shares of our common stock are entitled to receive such dividends as may be declared by our Board of Directors. To date, we have paid no cash dividends on our shares of our preferred or common stock and we do not expect to pay cash dividends in the foreseeable future on our common stock. Our Series C Preferred Stock accrues dividends at the rate of 4% per annum of the stated price, which initially is \$3.277777778 payable annually in arrears on December 31 of each year. In addition, our Series B Preferred Stock accrues dividends at the rate of 8% per annum of the stated price, which initially is \$10.00 payable annually in arrears on December 31 of each year. Other than dividend payments on the preferred stock we intend to retain future earnings, if any, to provide funds for operations of our business. Therefore, any return investors in our preferred or common stock may have will be in the form of appreciation, if any, in the market value of their shares of common stock.

Our stock price may be volatile or may decline regardless of our operating performance.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- price and volume fluctuations in the overall stock market;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- the public's response to our press releases or other public announcements, including our filings with the SEC;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for our products;
- market conditions or trends in our industry or the economy as a whole;
- the loss of key personnel;
- lawsuits threatened or filed against us;
- future sales of our common stock by our executive officers, directors and significant stockholders; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

We may issue preferred stock with greater rights than our common stock.

Our Certificate of Incorporation authorizes the Board of Directors to issue up to 10 million shares of preferred stock, par value \$.001 per share. The preferred stock may be issued in one or more series, the terms of which may be

determined by the Board of Directors at the time of issuance without further action by stockholders, and may include voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. Any preferred stock that is issued may rank ahead of our common stock, in terms of dividends, liquidation rights and voting rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of such an issuance, the Preferred Stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change of control of our company. Any delay or prevention of a change of control transaction or changes in our Board of Directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could require substantial premium over the then current market price per share. We currently have 3,137,500 Series A-1 Preferred Stock outstanding, 40,000 Series B Preferred Stock outstanding and have 4,500,000 Series C Preferred Stock outstanding. The Series C Preferred Stock has the right to annual dividends in preference to all other preferred stock and the common stock and the Series B Preferred Stock is also entitled to an annual dividend. The Series A-1, B and C Preferred Stock all have liquidation preferences over the common stock. In addition the vote of a majority of the Series C Preferred Stock will be required for the (i) merger, sale of substantially all of our assets or our recapitalization, reorganization, liquidation, dissolution or winding up, (ii) redemption or acquisition of shares of our common stock other than in limited circumstances, (iii) declaration or payment of a dividend or distribution with respect to our capital stock, (iv) making any loan or advance, (v) amending our Certificate of Incorporation or Bylaws, (vi) authorizing or creating any new class or series of equity security, (vii) increasing the number of authorized shares for issuance under any existing stock or option plan, (viii) materially changing the nature of the business, (ix) incurring any indebtedness, (x) engaging in or making investments not authorized by the Board of Directors, (xi) acquiring or divesting a material amount of assets (xii) selling, assigning, licensing, pledging or encumbering our material technology or intellectual property, and (xiii) entering into any corporate strategic relationship involving payment, contribution or assignment by us or to us of any assets. The vote of two-thirds of the Series A-1 Preferred Stock is also required to take certain actions similar to those set forth above.

If we fail to meet the new eligibility requirements of the OTC Market Group, we will no longer be eligible to have our common stock quoted on the OTCQB.

If we fail to maintain a minimum bid price of \$.01 per share one day per each thirty consecutive days, our stock will no longer be eligible to be traded on the OTCQB and will be traded on the pink sheets. Effective May 1, 2014, the OTC Market Group implemented new eligibility standards for companies traded on the OTCQB that include enhanced disclosure requirements. Investors of companies that do not meet the eligibility requirements will not have the benefit of the additional disclosure

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for the three months ended March 31, 2016

None.

Item 3. Defaults upon senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Regulation Number	Exhibit
31.1	Certification of the Chief Executive Officer and Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

PROPELL TECHNOLOGIES GROUP, INC.

DATE: May 16, 2016

(Registrant)

By: */s/ C B Boutte*

C B Boutte, President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)