

THORATEC CORP  
Form 10-Q  
August 10, 2010

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**U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark one)

**Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the quarterly period ended July 3, 2010**

or

**Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NUMBER: 000-49798**

**THORATEC CORPORATION**

*(Exact name of registrant as specified in its charter)*

**California**

**(State or other jurisdiction of incorporation  
or organization)**

**94-2340464**

**(I.R.S. Employer Identification No.)**

**6035 Stoneridge Drive, Pleasanton, California  
(Address of principal executive offices)**

**94588**

**(Zip Code)**

**(925) 847-8600**

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

**(Do not check if a smaller reporting company)**

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

As of July 31, 2010, the registrant had 58,460,160 shares of common stock outstanding.

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CentriMag is a registered trademark of Levitronix LLC.

ITC, A-VOX Systems, AVOXimeter, HEMOCHRON, ProTime, ProTime In Rhythm, Surgicutt, Tenderlett, Tenderfoot, and IRMA are registered trademarks of International Technidyne Corporation ( ITC ), Thoratec Corporation's wholly-owned subsidiary.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****THORATEC CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)  
(in thousands)**

	<b>July 3, 2010</b>	<b>January 2, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 37,435	\$ 27,787
Short-term available-for-sale investments	314,724	279,174
Receivables, net of allowances of \$1,086 and \$322, respectively	50,798	48,058
Inventories	48,505	44,635
Deferred tax assets	12,564	12,261
Prepaid expenses and other assets	4,611	4,831
Prepaid income taxes	20,188	1,234
Assets held for sale	60,848	63,798
 Total current assets	 549,673	 481,778
Property, plant and equipment, net	37,106	37,115
Goodwill	95,015	95,015
Purchased intangible assets, net	93,409	96,876
Long-term available-for-sale investments	24,166	24,634
Other long-term assets	9,935	12,465
 Total Assets	 \$ 809,304	 \$ 747,883
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,187	\$ 6,221
Accrued compensation	12,692	17,417
Other accrued liabilities	10,499	12,469
Senior subordinated convertible notes	133,882	
Liabilities related to assets held for sale	12,084	12,377
 Total current liabilities	 185,344	 48,484
Senior subordinated convertible notes		131,929
Long-term deferred tax liability	28,192	31,720
Other	9,996	10,622
 Total Liabilities	 223,532	 222,755
Shareholders equity:		
Common shares: no par, authorized 100,000; issued and outstanding 58,453 and 57,043 as of July 3, 2010 and January 2, 2010, respectively		

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Additional paid-in capital	595,141	557,418
Accumulated deficit	(4,947)	(30,321)
Accumulated other comprehensive loss:		
Unrealized loss on investments	(1,355)	(648)
Cumulative translation adjustments	(3,067)	(1,321)
Total accumulated other comprehensive loss	(4,422)	(1,969)
Total Shareholders' Equity	585,772	525,128
Total Liabilities and Shareholders' Equity	\$ 809,304	\$ 747,883

See notes to unaudited condensed consolidated financial statements.

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	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 3, 2010</b>	<b>July 4, 2009</b>	<b>July 3, 2010</b>	<b>July 4, 2009</b>
Product sales	\$ 95,098	\$ 69,222	\$ 194,370	\$ 133,851
Cost of product sales	30,579	26,780	62,150	47,051
Gross profit	64,519	42,442	132,220	86,800
Operating expenses:				
Selling, general and administrative	21,065	23,862	42,906	44,343
Research and development	11,812	10,327	31,803	21,100
Amortization of purchased intangible assets	2,468	2,359	4,880	5,082
Total operating expenses	35,345	36,548	79,589	70,525
Income from operations	29,174	5,894	52,631	16,275
Other income and (expense):				
Interest expense and other	(3,275)	(3,040)	(6,155)	(5,906)
Interest income and other	1,293	1,313	2,899	2,244
Impairment on investment	(46)		(2,046)	
Income before income taxes	27,146	4,167	47,329	12,613
Income tax expense	(9,609)	(1,281)	(16,428)	(3,558)
Net income from continuing operations	17,537	2,886	30,901	9,055
Net loss from discontinued operations (net of tax)	(1,583)	(1,054)	(2,514)	(1,596)
Net income	\$ 15,954	\$ 1,832	\$ 28,387	\$ 7,459
Net income (loss) per share Basic:				
Continuing operations	\$ 0.30	\$ 0.05	\$ 0.54	\$ 0.16
Discontinued operations	(0.02)	(0.02)	(0.05)	(0.03)
Net income	\$ 0.28	\$ 0.03	\$ 0.49	\$ 0.13
Net income (loss) per share Diluted:				
Continuing operations	\$ 0.29	\$ 0.05	\$ 0.52	\$ 0.16
Discontinued operations	(0.02)	(0.02)	(0.04)	(0.03)
Net income	\$ 0.27	\$ 0.03	\$ 0.48	\$ 0.13

Shares used to compute net income (loss) per share(1):

Basic	57,635	55,789	57,139	55,658
Diluted	66,436	57,161	65,986	57,014

See notes to unaudited condensed consolidated financial statements.

(1) See Note 16, Net Income (Loss) Per Share, for the computation of basic and diluted net income (loss) per share calculations using the two-class method.

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**THORATEC CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**  
**(in thousands)**

	<b>Six Months Ended</b>	
	<b>July 3, 2010</b>	<b>July 4, 2009</b>
<b>Cash flows from continuing operating activities:</b>		
Net income from continuing operations	\$ 30,901	\$ 9,055
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	8,219	8,758
Investment premium amortization, net	2,492	1,329
Loss on extinguishment of senior subordinated convertible notes	99	
Non-cash expenses, net	591	547
Non-cash interest expense	4,133	3,820
Impairment on investment	2,046	
Tax benefit related to stock options	10,013	1,832
Share-based compensation expense	6,653	5,477
Excess tax benefits from share-based compensation	(9,265)	(1,594)
Loss on disposal of assets	74	104
Change in net deferred tax liability	(3,577)	(4,504)
Changes in assets and liabilities:		
Receivables	(4,325)	(1,860)
Inventories	(6,032)	(5,057)
Prepaid expenses and other assets	272	(570)
Accounts payable and other liabilities	8,328	(3,065)
Prepaid income taxes, net	(21,780)	854
Net cash provided by continuing operating activities	28,842	15,126
<b>Cash flows from continuing investing activities:</b>		
Purchases of available-for-sale investments	(300,576)	(90,237)
Sales of available-for-sale investments	229,863	25,808
Maturities of available-for-sale investments	32,090	44,773
Restricted cash and cash equivalents		(20,000)
Purchases of patents	(1,414)	
Purchases of property, plant and equipment	(2,133)	(4,420)
Net cash used in continuing investing activities	(42,170)	(44,076)
<b>Cash flows from continuing financing activities:</b>		
Excess tax benefits from share-based compensation	9,265	1,594
Proceeds from stock option exercises	21,779	2,925
Proceeds from stock issued under employee stock purchase plan	1,884	1,628
Repurchase and retirement of common shares	(4,505)	(3,100)
Extinguishment of senior subordinated convertible notes	(5,345)	



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Net cash provided by continuing financing activities	23,078	3,047
Effect of exchange rate changes on cash and cash equivalents	(102)	(91)
Net increase (decrease) in cash and cash equivalents from continuing operations	9,648	(25,994)
Cash and cash equivalents from continuing operations at beginning of period	27,787	108,388
Cash and cash equivalents from continuing operations at end of period	\$ 37,435	\$ 82,394
<b>Cash flows from discontinued operations:</b>		
Net cash provided by operating activities	\$ 2,495	\$ 1,950
Net cash used in investing activities	(1,746)	(1,535)
Net increase in cash from discontinued operations	749	415
Bank overdraft from discontinued operations at beginning of period	(1,326)	(1,335)
Bank overdraft from discontinued operations at end of period	\$ (577)	\$ (920)
<b>Supplemental disclosure of consolidated cash flow information:</b>		
Cash paid for taxes	\$ 29,562	\$ 4,852
Cash paid for interest	\$ 1,707	\$ 1,707
<b>Supplemental disclosure of consolidated non-cash investing and financing activities:</b>		
Transfers of equipment from inventory	\$ 2,029	\$ 1,120
Purchases of property, plant and equipment through accounts payable and accrued liabilities	\$ 34	\$ 370

See notes to unaudited condensed consolidated financial statements.

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**THORATEC CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Operations and Significant Accounting Policies***Basis of Presentation*

The interim unaudited condensed consolidated financial statements of Thoratec Corporation ( we, our, us, or the Company ) have been prepared and presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and the rules and regulations of the Securities and Exchange Commission ( SEC ), without audit, and reflect all adjustments necessary (consisting only of normal recurring adjustments) to present fairly our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. The accompanying financial statements should be read in conjunction with our fiscal 2009 consolidated financial statements, and the accompanying notes thereto, filed with the SEC in our Annual Report on Form 10-K (the 2009 Annual Report ). The operating results for any interim period are not necessarily indicative of the results that may be expected for any future period.

The preparation of our unaudited condensed consolidated financial statements necessarily requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the unaudited condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. The actual amounts could differ from those estimated amounts.

The financial information presented herein includes continuing operations, unless otherwise stated. On April 25, 2010, our board of directors made a decision to sell International Technidyne Corporation ( ITC ) and expects to complete this sale within a year. As such, in the second quarter of 2010, ITC has met the conditions in Financial Accounting Standards Board ( FASB ) Codification ( ASC ) 360, *Property, Plant and Equipment*, to be classified as an asset held for sale for all periods presented, as described in Note 15, Assets Held for Sale.

*Revenue Recognition and Product Warranty*

We recognize revenue from product sales when evidence of an arrangement exists, and title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectability is reasonably assured. Sales to distributors are recorded when title transfers.

The majority of our products are covered by up to a one-year limited manufacturer s warranty. Estimated contractual warranty obligations are recorded when related sales are recognized and any additional amounts are recorded when such costs are probable, can be reasonably estimated and are included in Cost of product sales. The change in accrued warranty expense is summarized in the following table:

	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>			
	<b>July 3,</b>	<b>July 4,</b>	<b>July 3,</b>	<b>July 4,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>			
Balance at beginning of period	\$ 1,777	\$ 705	\$ 1,706	\$ 554
Accruals for warranties issued	1,182	1,122	1,931	1,900
Settlements made	(1,212)	(631)	(1,890)	(1,258)
Balance at end of period	\$ 1,747	\$ 1,196	\$ 1,747	\$ 1,196

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In July 2010, the FASB issued Accounting Standards Update ( ASU ) No. 2010-20, *Receivables (Topic 320): Disclosures About Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 provides accounting guidance which expands disclosures regarding the credit quality of an entity's receivables portfolio and its related allowance for credit losses. This ASU No. 2010-20 amended guidance is effective for us commencing in the third quarter of 2011. We are currently evaluating the effect of the amended guidance on our unaudited condensed consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition (Topic 605): Milestone Method*. ASU No. 2010-17 provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. Under the milestone method of revenue recognition, consideration that is contingent upon achievement of a milestone in its entirety can be recognized as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. ASU No. 2010-17 provides the criteria to be met for a milestone to be considered substantive which includes that: (i) performance consideration earned by achieving the milestone be commensurate with either performance to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from performance to achieve the milestone; and (ii) relate to past performance and be reasonable relative to all deliverables and payment terms in the arrangement. ASU No. 2010-17 is effective on a prospective basis for us for milestones achieved on or after January 2, 2011. Earlier application is permitted. We are currently evaluating the application date and the effect of the amended guidance on our unaudited condensed consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends ASC 820 and includes separate roll forward activity in Level 3 fair value measurements for purchases, sales, issuances and settlements. This amendment is effective after fiscal year 2010. We are currently evaluating the application of this standard on our unaudited condensed consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)*, which amends ASC 605-25, *Revenue Recognition: Multiple-Element Arrangements*. ASU No. 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate consideration to each unit of accounting in the arrangement. This ASU replaces all references to fair value as the measurement criteria with the term selling price and establishes a hierarchy for determining the selling price of a deliverable. ASU No. 2009-13 also eliminates the use of the residual value method for determining the allocation of arrangement consideration. Additionally, ASU No. 2009-13 requires expanded disclosures. This ASU will become effective for revenue arrangements entered into or materially modified after our fiscal year 2010. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the impact of this standard on our unaudited condensed consolidated financial statements.

**3. Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less at the date of purchase. The fair value of these investments was determined by using quoted prices for identical investments in active markets.

**4. Investments in Available-for-Sale Securities**

Our investment portfolio is comprised of short-term and long-term investments. Investments classified as short-term available-for-sale consist primarily of municipal bonds, corporate bonds, commercial paper and variable demand notes. All investments mature within two years or less from the date of purchase. Investments with maturities beyond one year may be classified as short-term, if they are available and intended for use in current operations, based on their highly liquid nature or due to the frequency with which the interest rate is reset. Investments classified as long-term available-for-sale consist of auction rate securities, whose underlying assets are student loans. In addition, our long-term investments associated with the deferred compensation plans are classified as trading and consist of the cash surrender value of our corporate owned life insurance policies.

Our investments in available-for-sale securities are recorded at estimated fair value on our financial statements, and the temporary differences between cost and estimated fair value are presented as a separate component of accumulated other comprehensive loss.

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As of July 3, 2010, we had unrealized gains before tax from our investment in municipal bonds and corporate bonds of \$1.3 million and unrealized losses before tax from our auction rate securities of \$3.5 million.

The aggregate market value, cost basis and gross unrealized gains and losses for available-for-sale investments as of July 3, 2010 and January 2, 2010 by major security type are as follows:

	<b>Amortized cost</b>	<b>Gross unrealized gains (losses) (in thousands)</b>	<b>Fair value</b>
<b>July 3, 2010:</b>			
Short-term investments:			
Municipal bonds	\$ 250,969	\$ 1,028	\$ 251,997
Variable demand notes	45,605		45,605
Corporate bonds	13,865	265	14,130
Commercial paper	2,992		2,992
Total	\$ 313,431	\$ 1,293	\$ 314,724
Long-term investments:			
Auction rate securities	\$ 27,700	\$ (3,534)	\$ 24,166
<b>January 2, 2010:</b>			
Short-term investments:			
Municipal bonds	\$ 196,650	\$ 1,526	\$ 198,176
Variable demand notes	66,865		66,865
Corporate bonds	13,785	348	14,133
Total	\$ 277,300	\$ 1,874	\$ 279,174
Long-term investments:			
Auction rate securities	\$ 27,700	\$ (3,066)	\$ 24,634

As of July 3, 2010, we owned approximately \$27.7 million face amount of auction rate securities classified as long-term. The assets underlying these investments are student loans backed by the U.S. government under the Federal Family Education Loan Program or by private insurers and are rated between A- and AAA. Historically, these securities have provided liquidity through a Dutch auction process that resets the applicable interest rate periodically every seven to thirty-five days. Beginning in February of 2008, these auctions began to fail. The principal amount of these auction rate securities will not be accessible until future auctions for these securities are successful, a secondary market is established, these securities are called for redemption, or they are paid at maturity.

As a result of these auction failures, these auction rate securities do not have a readily determinable market value. We estimated fair values as of July 3, 2010 using a discounted cash flow model based on estimated interest rates, the present value of future principal and interest payments discounted at rates considered to reflect current market conditions, and the credit quality of the underlying securities. Specifically, our management estimated the future cash flows over a five-year period, and applied a credit default rate to reflect the risk in the marketplace for these investments has arisen due to the lack of an active market.

As of July 3, 2010 we recorded an estimated cumulative unrealized loss of \$3.5 million (\$2.1 million, net of tax) related to the temporary impairment of the auction rate securities, which was included in accumulated other comprehensive loss within shareholders' equity. In addition, our management reviews impairments and credit losses associated with its investments, including auction rate securities, to determine the classification of the impairment as temporary or other-than-temporary and to bifurcate the credit and non-credit component of other-than-temporary impairment event. We (i) do not intend to sell any of the auction rate securities prior to maturity at an amount below the original purchase value; (ii) intend to hold the investment to recovery and, based on a more-likely-than-not probability assessment, will not be required to sell the security before recovery; and (iii) deem that it is not probable that we will receive less than 100% of the principal and accrued interest from the issuer. Therefore, 100% of the impairment was charged to other comprehensive loss. Our auction rate securities are classified as long-term valued at \$24.2 million using significant unobservable inputs. Subsequent to the second quarter of 2010 we liquidated \$3.0 million of our auction rate securities at par value through a successful auction.

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If the issuers of the auction rate securities are unable to successfully complete future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge to earnings on these investments. It could conceivably take until the final maturity of the underlying notes (up to 30 years) to realize the investments carrying value.

The aggregate market value of our trading investments included in our deferred compensation plan as of July 3, 2010 and January 2, 2010 were as follows:

	<b>July 3, 2010</b>	<b>January 2, 2010</b>
	<b>(in thousands)</b>	
Deferred compensation plan	\$ 2,357	\$ 2,436

The investments associated with the deferred compensation plans are included in Other long-term assets on our condensed consolidated balance sheets at the fair value of the cash surrender value of our corporate owned life insurance policies. The realized loss before tax from the change in the fair value of the cash surrender value for the three months ended July 3, 2010 of approximately \$0.2 million and for the six months ended July 3, 2010 of approximately \$80,000 is included in Interest income and other.

**5. Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosure*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, we used various approaches, including market, income and/or cost approaches, and each of these approaches requires certain inputs. Fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions as compared to the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

We value our financial and nonfinancial assets and liabilities based on the observability of inputs used in the valuation of such assets and liabilities using the following fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial and nonfinancial assets and liabilities carried or disclosed at fair value were classified and disclosed in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices of similar investments in active markets, of similar or identical investments in markets that are not active or model based valuations for which all significant inputs and value drivers are observable, directly or indirectly.

Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

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The following table represents the hierarchy of our financial assets and financial liabilities measured at fair value on a recurring basis:

Number of securities Remaining available for Future issuance under Equity compensatio plans				
Equity compensation plans approved by security holders	0			
Equity compensation plans not approved by security holders	93,816	\$	10.00	
Total	93,816	\$	10.00	6,184

**Item 6. Selected Financial Data**

This item is omitted as not required for smaller reporting companies.

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand our results of operations and financial condition.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statement as of December 31, 2012 and 2011 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. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined below in “Critical Accounting Policies.”

**FORWARD-LOOKING STATEMENTS**

Certain statements made in this report may constitute “forward-looking statements on our current expectations and projections about future events.” These forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases you can identify forward-looking statements by terminology such as “may,” “should,” “potential,” “continue,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” and similar expressions. These statements are based on our current beliefs, expectations, and assumptions and are subject to a number of risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this report, and we assume no obligation to update these forward-looking statements whether as a result of new information, future events, or otherwise, other than as required by law. In light of these assumptions, risks, and uncertainties, the forward-looking events discussed in this report might not occur and actual results and events may vary significantly from those discussed in the forward-looking statements.



## Company Overview

Since 2010 and until recently, we were engaged exclusively in the on-demand e-commerce line of business. On February 4, 2013, we commenced operations in a second line of business by effecting a Share Exchange Agreement with the shareholders of Novas Energy (USA), Inc. (“Novas”), under which we acquired all of the outstanding equity securities of Novas in exchange for 100,000,000 shares of our common stock. Novas has an exclusive license for the right to engage in the commercial application of a proprietary “Plasma-Pulse Technology” to enhance the recovery of oil in the United States. This technology has to date only been used outside of the United States. While our primary focus has now shifted to the further development of our oil recovery technology; we intend to continue to carry on our on-demand e-commerce line of business while we evaluate the opportunities in the oil recover that line of business.

On January 30, 2013, Novas entered into an exclusive, perpetual royalty bearing license agreement with Novas Energy Group Limited (“Licensor”) which granted Novas the right to practice in the United States the proprietary process of the Licensor and utilize its apparatus for enhanced oil production. The license agreement provides Novas with the right to practice the licensed process and to utilize the technology to provide services to third parties and for itself as well, and to sublicense the technology in the United States. Although it has never been utilized in the United States, the process has been successfully utilized outside of the United States for several years. The Licensor has filed for patent protection of its technology in the United States. The process utilizes a downhole 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 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. Our current technology and tools only work in vertical wells with a minimum of 5 ½ casings and not in horizontal wells. We are currently in the process of developing a tool to treat 4 ½ cased wells and also horizontal wells. We anticipate the smaller diameter tool to be available in the 3rd quarter of 2013 and anticipate testing the new horizontal tool in the 4th quarter of 2013.

Numerous companies have utilized the Plasma Pulse Technology that Novas has licensed in the treatment and stimulation of oil wells throughout the Russian Federation, China, Kazakhstan, Uzbekistan and Czech Republic. The tool and subsequent well treatment has been attributed with increasing oil production and injector well fluid flow in over 150 wells outside of the United States. It does so without any chemicals associated with hydraulic fracturing and therefore is deemed to be environmentally friendly. The treatment was created to clear the well drainage area of sedimentation clogging at the perforation zone and increase the permeability of the reservoir at the same time. The tool has also been used (in Russia) in the completion of new vertical well drills instead of a completion frack and results have been shown to be similar to fracking.

Initially, we intend to derive revenue from customers based upon a percent of their increased oil production revenue. We intend to provide customers with a free demonstration of our technology at one of their sites with an agreement that if successful and there is an oil recovery gain that we will share in the increased revenue derived from such gain. Alternatively, we also intend to perform enhancement services for customers for a fixed fee per well or to sublicense the technology to others who will perform the services that we would perform and pay us a fee for such sublicense. In addition, we may seek to acquire underperforming wells and use the technology on the wells we acquire to produce revenue.

In our on-demand e-commerce business we enable turnkey e-commerce web sites for education, military and media partners under the registered trademark PropellShops® in which we sell apparel and other merchandise branded with the organization’s logo or other artwork, providing all necessary technology, on-demand manufacturing, marketing and fulfillment services at no risk or cost to its partners, and share resulting revenue with the partners.

Our primary target markets are K-12 schools, universities, military, independent musicians, nonprofits and businesses, for whom the company provides a wide selection of options for customized apparel, uniforms, and other merchandise. Most products are created “on demand,” meaning they are manufactured as ordered, so there is no finished inventory required. While we work with some independent groups and individuals, our business model is based upon the formation of strategic partnerships with key targeted companies involved in each of our target markets in order to obtain access to a large number of customers.

The PropellShops system permits partners with little or no technical or graphic expertise to quickly become “Store Owners” and have online shops displaying a wide variety of personalized apparel and other merchandise featuring the school or organization’s brand or other artwork. The Store Owner then publicizes the shop to its potential customers, and Propell does all manufacturing, billing, customer support and shipping.



Since Propell does not charge a set-up fee for e-commerce shops, and merchandise is only manufactured when ordered, the PropellShops system eliminates almost all risk or investment for Store Owners. They carry no inventory, and Propell handles all fulfillment. Further, Propell's on-demand system also eliminates minimum order quantities and long lead times. Propell collects all revenue and then distributes a share of every sale to the Store Owner.

## OUR PLAN OF OPERATIONS

### Our Company

We are a Delaware corporation engaged in two lines of business. To date, all of our revenue has been derived from our e-commerce line of business. We are currently evaluating this line of business and have substantially reduced our marketing activities and reduced our labor force during this evaluation period. Our primary focus is on the commercial application of the "Plasma-Pulse Technology" that we license to enhance the recovery of oil in the United States. Although the technology has only been proven outside of the United States, we are currently modifying the apparatus used by the Licensor outside of the United States so that it can be used on oil wells in the United States. We anticipate completion of the modified apparatus by the end of the second quarter of this year at which time we will then be able to demonstrate the technology's capability. Initially, we expect to offer our services to independent oil wells for a percentage of the revenue that our customers derive from the additional production resulting from the use of our technology. We may also charge a service fee for use of the technology as opposed to a percentage of revenue. In addition, we may acquire wells and use the technology on our acquired wells to increase their production. Our anticipated customers are the owners of independent oil wells.

Our results of operation for the year ended December 31, 2012 and 2012 involve the sales and operations from PropellShops since Novas was acquired subsequent to December 31, 2012. Our current e-commerce customers include eChalk, the Los Angeles Times, the Navy Exchange Command, and numerous K-12 schools and universities, through e-commerce web sites. In addition, our management has a long track record of delivering a variety of consumer and photo products, services and logistics to partners, including Wal-Mart, Walgreens, CVS and Rite-Aid. Our ability to continue to fulfill customer orders and expand our business during the prior year has been dependent upon us raising additional funding. Due to limited capital and related staff reductions, we had reduced our outbound sales and marketing activities. Although we continue to accept and ship orders placed on our ecommerce web sites from existing customers, and from new customers who use our online tools to set up their own shops, our activity during the year was limited due to our financing needs.

To date we have financed our operations from sales of our securities, both debt and equity, and revenue from operations and we expect to continue to obtain required capital in a similar manner. We have incurred an accumulated deficit of \$6,211,915 through December 31, 2012. We cannot provide any assurance that we will be able to achieve profitability.

Our fiscal year end is December 31.

### Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies have a material effect on reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the individual Notes to the Financial Statements for the year ended December 31, 2012.



## Revenue Recognition

The Company recognizes revenues when products are shipped or services are delivered to customers, pricing is fixed or determinable, and collection is reasonably assured. Net revenues include product sales net of returns and allowances.

## Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Estimates are based on historical experience, management expectations for future performance, and other assumptions as appropriate. Key areas affected by estimates include the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows. We re-evaluate estimates on an ongoing basis; therefore, actual results may vary from those estimates.

## Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. We place our cash with high quality financial institutions and at times may exceed the FDIC insurance limit. We extend credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses, as required.

## Recently Issued Accounting Standards

For a discussion of the adoption and potential impacts of recently issued accounting standards, refer to the "Recent Accounting Pronouncements" section of Note 1, "Reorganization and Summary of Significant Accounting Policies," in the Notes to Financial Statements.

## Results of Operations 2012

Our results of operations for the years ended December 31, 2012 and 2011 does not include Novas since we acquired Novas after December 31, 2012.

Year ended December 31, 2012 compared to year ended December 31, 2011.

The following table sets forth our results of operations, excluding discontinued operations, for the years ended December 31, 2012 and December 31, 2011 in absolute dollars and as a percentage of revenue. It also details the changes from the prior fiscal year in absolute dollars and in percentages. We have reported the results of operations of businesses we discontinued in 2010 [and 2011] as discontinued operations for both the year ended December 31, 2012 and the year ended December 31, 2011. See "Discontinued Operations."

	Fiscal Year ended December 31,				Change from	
	2012	% of Revenue	2011	% of Revenue	2011 Variance	%
Net revenues	\$ 59,915		\$ 204,796		\$ (144,881 )	-242 %
Product cost	46,916	78 %	138,874	68 %	(91,958 )	-196 %

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Gross profit	12,999	22	%	65,922	32	%	(52,923 )	-407	%
Operating expenses	546,735	913	%	1,217,938	719	%	(671,203 )	-123	%
Operating loss	533,736	-891	%	(1,152,016)	687	%	1,685,752	316	%
Interest and other income, net	255,519	426	%	(222,031 )	17	%	477,550	187	%
Loss from continuing operations	(278,217 )	464	%	(1,374,047)	677	%	1,095,830	-394	%
Loss from discontinued operations	\$ -	0	%	-	0	%	-	0	%
Net loss	\$ (278,217 )	464	%	\$ (1,374,047)	677	%	\$ 1,095,830	-394	%

## Continuing Operations

### Net Revenues

For the year ended December 31, 2012 as compared to the year ended December 31, 2011, PropellShops revenue decreased from \$204,796 to \$59,915 or 70.7% due to reduced sales and marketing activities due to lack of funds.

### Gross Profit

Gross profit decreased from \$65,922 or 32% of revenue for the year ended December 31, 2011 to a profit of \$12,999 or 22% of revenue for the year ended December 31, 2012. Gross margins became unsustainable with the Company experiencing decreased sales.

### Operating Expenses

Operating expenses decreased from \$1,217,938 for the year ended December 31 2011 to \$546,735 for the year ended December 31 2012, due to reduced sales and general and administrative expenses.

### Discontinued Operations

At the end of the fiscal year we had no operating subsidiaries. Crystal Magic (CMI), which operated our laser etching business, ceased operations in June 2010.

### Liquidity and Capital Resources

To date, our primary sources of cash have been funds raised from the sale of our equity securities and issuance of convertible and non-convertible debt.

We have incurred an accumulated deficit of \$6,211,915 through December 31, 2012. We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our current tool development. Based on our current plans, we believe that our cash will not be sufficient to enable us to meet our planned operating needs in the next quarter. Our ability to continue to fulfill customer orders and expand our business is dependent upon us raising additional funding in the near term. Due to limited capital and related staff reductions, we have reduced our outbound sales and marketing activities until such time that more working capital can be secured or is generated from sales growth. We continue to accept and ship orders placed on our ecommerce web sites from existing customers, and from new customers who use our online tools to set up their own shops. However, our lack of cash makes it difficult for us to purchase necessary products and retain employees for our PropellShops.

On October 31, 2012 and November 26, 2012, we issued a convertible note in the principal amount of \$20,000 and \$25,000, respectively, to an investor who is also a shareholder. The notes accrues interest at a rate per annum of 6% and, at the option of the holder, are convertible into shares of our common stock, at the higher of \$.05 per share or 50% of the average closing price of our common stock on the three days prior to the conversion date.

Effective November 20, 2012, we exchanged debt issued to two investors in the aggregate principal amount of \$2,304,311 plus interest of \$560,052 for two new convertible notes, one in the principal amount of \$1,680,000 and the other in the principal amount of \$320,000. The notes accrue interest at a rate of 6% per annum, mature on November 19, 2017 and, at the discretion of the holder, are convertible into common stock at a conversion price of \$.02 per share.



Twelve Months Ended December 31, 2012 - Cash Flow Activity

During 2012, the Company raised a total of \$377,500 through the issuance of preferred stock (\$230,000) and convertible notes totaling \$147,500. In addition, the Company was required to accrue certain salaries, defer rent and negotiate settlements of wages and other payables.

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#### Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

#### Item 8. Financial Statements and Supplementary Data

See page F-1 through F-20.

#### Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure with our independent auditors for the period ended December 31, 2012.

#### Item 9A. Controls and Procedures

##### Disclosure Controls and Procedures

The Company has adopted and maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Exchange Act, such as this Form 10-K, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. The Company's disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. As required under Exchange Act Rule 13a-15, the Company's management, including the Chief Executive Officer who is also the Principal Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO who also serves as the Principal Financial Officer concluded that due to a lack of segregation of duties that the Company's disclosure controls and procedures are 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, is 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's intends to retain additional individuals to remedy the ineffective controls.

##### Changes in Internal Control

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 December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

##### Internal Controls

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a)-15. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer who is also our Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

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Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
  - Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. It is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. It also can be circumvented by collusion or improper management override.

Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process certain safeguards to reduce, though not eliminate, this risk.

Management has used the framework set forth in the report entitled Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, to evaluate the effectiveness of our internal control over financial reporting. Based upon this assessment, management has concluded that ended December 31, 2012. The COSO framework required rigid adherence to control principles that require sufficient and adequately trained personnel to operate the control system. Based on the assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting were ineffective based on those criteria.

This Annual report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities Exchange Commission that permit us to provide only management’s report in this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The directors, officers and key employees of the Company are as follows:

Name	Age	Position
John W. Huemoeller II (1)	57	Chief Executive Officer/President/Director
John Zotos (2)	58	Secretary, Director
Edward L. Bernstein (3)	61	Chairman of the Board
Mark Kalow (4)	58	Director
James Fuller	70	Director

(1) On March 6, 2013, Mr. Huemoeller was appointed as our Chief Executive Officer and President and a director.

(2) On March 6, 2013, Mr. Zotos was appointed as our Secretary and a director.

(3) On March 6, 2013, Mr. Bernstein resigned as our Chief Executive Officer and President

(4)

On January 19, 2012, we received written notice of the resignation of James Wallace as Vice President and Secretary, effective as of January 19, 2012. Mr. Kalow temporarily assumed the role of Assistant Secretary to fill the vacant position until March 6, 2013 when Mr. Zotos assumed the position of Secretary.

The business experience, principal occupations and employment of each of the above persons during at least the last five years are set forth below.

#### John W. Huemoeller II

Mr. Huemoeller has been our Chief Executive Officer and President, as well as Chief Financial Officer, since March 6, 2013. He also currently serves as the Chief Executive Officer and a director of Novas. Mr. Huemoeller has over 30 years experience in investment banking, finance, sales and marketing. Mr. Huemoeller began his career as an investment advisor in 1982 with M.L. Stern & Company a municipal bond firm in California and became a registered principal in 1985 managing retail brokers. He has previously been registered with various state insurance boards, as well as with the Chicago Board of Trade as a commodities broker. John has worked for Smith Barney, Drexel Burnham Prudential Securities, and Paine Webber and has extensive experience in stocks, bonds, commodities, mergers and acquisitions, leveraged buyouts and private placement transactions.

From April 2012 to present, Mr. Huemoeller has been the President of Joshua Tree Capital Inc., an independent corporate finance advisory firm specializing in providing strategic capital formation guidance to public and private small cap oil and gas companies. From March 2009 to April 2012, Mr. Huemoeller was a FINRA--registered investment banker focused on all aspects of taking companies public, deal structure and Institutional placement of both debt and equity transactions with Buckman, Buckman and Reid. From August 2008 to March 2009, Mr. Huemoeller worked with Greenstone Holdings Group, LLC, an advisory firm with an emphasis on helping Chinese Companies go public in the U.S. From January 2008 to July 2008, Mr. Huemoeller worked at Aspenwood Capital, a division of Green Drake Securities as an Investment Banker. Mr. Huemoeller previously served as Chairman and CEO of HumWare Media Corp, a publicly traded software development, media and technology company which he started in 1998 and was responsible for acquisition strategies and the day--to--day corporate operations. Mr. Huemoeller is co--author of U.S. Patent #5,855,005. Mr. Huemoeller completed various studies in the Bachelor of Business Administration Program at the University of Minnesota and has previously held Series 3, 7, 24, 63 and 79 Securities Licenses.

Mr. Huemoeller's financial experience, specifically with oil and gas companies, provide him with the attributes that make him a valuable member of the Company's Board of Directors. His service on other public company board's brings to us important knowledge regarding corporate governance.

#### John Zotos

Mr. Zotos was appointed as a director on November 2012. He currently serves as a director of Novas as well. Since July 2007, he has served as a principal and a managing partner of JC Holdings, LLC, a company engaged in the business of buying, selling and managing heavy equipment and commercial real estate.

Mr. Zotos brings to the Board significant business experience. Mr. Zotos' prior business experience, especially his experience in the on line industry, gives him a broad and extensive understanding of our operations and our industry. Due to his business background, he has a broad understanding of the operational, financial and strategic issues facing public companies.

#### Edward L. Bernstein

Mr. Bernstein served as Chairman of the Board since we were organized in January 2008 and as our Chief Executive Officer and President since we were organized in January 2008 until March 6, 2013. Mr. Bernstein has a 25-year track record in founding, financing and growing consumer technology and entertainment companies. He has raised over \$75 million in private capital working with a variety of venture capital and strategic investors. During 2007 and until February 2008, Mr. Bernstein was a consultant to Creekside LLC, a consulting firm to early stage technology companies. From 2002 through 2006, Mr. Bernstein served as President and CEO of PhotoTLC, Inc., providing online and in-store digital photo services and gifts for the largest retailers in the United States. Prior to his work with

PhotoTLC, beginning in 1999, Mr. Bernstein served as the Chief Executive Officer of Photopoint.com, one of the pioneering digital photo sharing sites. Mr. Bernstein also serves on the Board of Directors of Westinghouse Solar, Inc., a publicly traded solar products designer and manufacturer. Mr. Bernstein received his Bachelor of Arts from the University of Hartford and is a graduate of Stanford University's Executive Program.

Mr. Bernstein brings to the Board significant executive leadership and operational experience. Mr. Bernstein's prior business experience, especially his experience in the on line industry, gives him a broad and extensive understanding of our operations and our industry. His prior service on the board of other public companies has provided him with a strong corporate governance expertise and an understanding of the proper role and function of the Board. Due to his business background, he has a broad understanding of the operational, financial and strategic issues facing public companies.

Mark Kalow

Mr. Kalow has been a Managing Director at Soquel Group, a consulting firm specializing in Intellectual Property and Business Development for the past eight years; he also serves on the board of directors and audit committees of: Westinghouse Solar, a provider of solar power systems (OTC: WEST); Pure Depth, a display technology licensing company; LSF Network, an e-marketing services company; ACDgo, a cloud services company; Dogfish Software, a software services provider; Rope Partner, a wind energy service company; the Tannery Arts Center in Santa Cruz, CA and the Anna Mahler International Association, an arts organization in Spoleto Italy.

From Oct. 1999 to Sept. 2003, Mr. Kalow served as a Managing Director for the Venture Capital Division of Trans Cosmos USA, a Japanese IT services company and strategic investor in U.S. rich media, CRM and e-marketing companies. From September 1993 to July 1998, Mr. Kalow was COO and CFO of Live Picture Inc. (LPI), a digital imaging software company that he co-founded. He was CEO of LPI from November 1998 through June 1999.

Previously, Mr. Kalow held management positions at IBM and served as VP, Telecommunications Strategy at the Chase Manhattan Bank. Mr. Kalow holds a Bachelor of Science degree in Management from the Massachusetts Institute of Technology and an MBA with a concentration in financial management from the University of Chicago. He attended Director's College at Stanford Law School, June 2006. He has been a speaker at numerous industry events on digital imaging and venture capital including the 6Sight conference in San Jose, CA, November 2010.

Mr. Kalow brings a strong business background to Propell, having worked in similar businesses for many years. Mr. Kalow brings to the Board significant strategic, business and financial experience related to the business and financial issues facing our company. His financial management and legal background provides him with a broad understanding of the financial and legal issues facing Propell, the financial markets and the financing opportunities available to Propell. His prior service on the board of other public companies has provided him with a strong corporate governance expertise and an understanding of the proper role and function of the Board.

James Fuller

Mr. Fuller was named to Propell's Board of Directors on October 14, 2011. Mr. Fuller provides extensive financial experience to the board, with more than three decades in key roles in major financial, educational and regulatory organizations, including overseeing the consulting practice for the Investment Industries Division of SRI International and serving as Senior Vice President of the New York Stock Exchange (NYSE) from 1976 to 1981, where he was responsible for corporate development, marketing, corporate listing and regulation oversight, research and public affairs.

In 1981, he was named by President Ronald Reagan to the Board of Directors of the Securities Investor Protection Corporation (SIPC), where he served until 1987. He was Senior Vice President of Marketing for Charles Schwab and Company from 1981 to 1985. Subsequently, he held key roles as President of Bull & Bear Group, a mutual fund/discount brokerage company in New York, as Senior Vice President and Director of Bridge Information Systems and founder and head of Morgan Fuller Capital Group, a registered broker/dealer based in San Francisco, CA.



Since March 2008, he has been a partner in the private equity firm Baytree Capital, where he oversees the West Coast operations and their interests in the Far East including China. In 2007 and 2008, Mr. Fuller was owner of Northcoast Financial brokerage.

He is past chairman of the board of Pacific Research Institute, and is a member of the board of the International Institute of Education. He is an elected member and vice chairman for finance of the San Francisco Republican Central Committee and is a member of the Pacific Council for International Policy, Commonwealth Club, and past member of the Committee of Foreign Relations. He served on the Board of Trustees of the University of California, Santa Cruz for 12 years. He received his MBA in Finance from California State University and his Bachelor of Science in Marketing and Political Science from San Jose State University.

Mr. Fuller extensive experience in finance as well as sales and marketing provides him with a broad understanding of the operational, financial and strategic issues facing public companies.

#### Employees

At December 31, 2012 we had 2 part time employees but no full-time employees, however, Mr. Huemoeller serves in a full time capacity since becoming Chief Executive Officer on March 6, 2013.

#### Directors' Term of Office

Directors will hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by our board of directors and serve at the discretion of the board of directors.

#### Director Independence

Although our common stock is not listed on any national securities exchange, for purposes of independence we use the definition of independence applied by The NASDAQ Stock Market. The Board has determined that Messrs. Kalow and Fuller are "independent" in accordance with such definition. Mr. Huemoeller and Mr. Zotos are not independent due to their current positions with our company and Novas and our director, Edward L. Bernstein, is not independent because of his prior position as an executive officer of our company.

#### Audit Committee and Audit Committee Financial Expert

Our board of directors acts as our audit committee. Mark Kalow and James Fuller is are "audit committee financial experts," as that term is defined in Item 407(d) of Regulation S-K promulgated under the Securities Act.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of Propell. Officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish us with copies of all Section 16(a) forms they file. These filings are publicly available on the SEC's website at [www.sec.gov](http://www.sec.gov). Based solely on our review of the copies of such forms received by us and our review of the SEC's website, we believe that during fiscal year ended December 31, 2011, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with, except that Edward Bernstein filed one Form 4 after it was due.

#### Code of Ethics

We have established and maintain a Code of Ethics which is applicable to all employees, officers, and directors. Our policy is designed to deter wrongdoing and to promote honest and ethical conduct and compliance with all applicable laws and regulations. It also communicates our expectations of our employees and helps enable us to provide accurate and timely disclosure in our filings with the SEC and other public communications. In addition, the policy incorporates guidelines pertaining to topics such as environmental compliance, health and safety compliance; diversity and non-discrimination; vendor relations, employee privacy; and business continuity.

We will provide any person without charge, upon written or oral request to our corporate headquarters, a copy of our Code of Ethics. Our Code of Conduct is posted on our website at [www.propell.com](http://www.propell.com)

Item 11. Executive Compensation

The following table discloses information regarding the compensation that was paid to the individual that served as our principal executive officer and principal financial officer during the year ended December 31, 2012.

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Name and Principal Position	Fiscal Year	Non-Qualified Non-Equity Deferred Incentive Plan Compensation							All Other Compensation	Totals
		Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)	Deferred Compensation (\$)	Other Compensation (\$)		
Edward L. Bernstein, CEO, CFO	2012	128,542	0	0	0	0	0	0	128,542	
(1,2,3)	2011	90,417	35,000	0	123,076	0	0	31,989	280,482	

- (1) Includes value of stock paid in lieu of severance.  
 (2) On March 6, 2013, Mr. Bernstein resigned as our Chief Executive Officer and President.  
 (3) At December 31, 2012, Mr. Bernstein is due \$78,125 in deferred salaries and bonuses of which \$63,542 accrued during 2012.

Outstanding Equity awards at Fiscal Year-End

The following table sets forth information relating to equity awards outstanding at the end of Fiscal 2012 for each named Executive Officer.

Name	Grant Date	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price (\$/share)	Option Expiration Date
Edward L. Bernstein	6/15/09	2,000	0	0	13.50	6/15/19
	6/30/11	30,000	20,000	10,000	8.50	6/30/21

Option Exercises

The following table sets forth certain information relating to the exercise of stock options and the vesting of stock awards during Fiscal 2012 for the named Executive officer.

Name	Number of Shares Acquired on Exercise (number)	Value Realized on Exercise (\$)
Edward Bernstein	-	-

DIRECTOR COMPENSATION

The following table sets forth certain information concerning the compensation paid or earned by the Directors who were not a Named Executive Officer for services rendered in all capacities during the fiscal year ended December 31, 2012.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Stock Awards (1)	Non-equity Incentive Plan (\$)	Nonqualified Deferred	All Other Compensation (\$)	Total (\$)
					Compensation Earnings (\$)		
Mark Kalow	-	-	-	-	-	-	-
James Fuller (2)	-	-	-	-	-	-	-

(1) The amounts in this column represent the aggregate grant date fair values of the stock option awards granted to the executive in fiscal year ended December 31, 2012 and 2011, respectively in accordance with stock compensation accounting. See Note 9 of the Notes to our Consolidated Financial Statements contained herein, for a discussion of all assumptions made by us in determining the valuation of equity awards.

(2) On October 14, 2011, Mr. Fuller was appointed to the Board of Directors.

It is anticipated that all non-executive officer directors will receive a quarterly fee for serving as a director of a \$3,000 cash payment and options exercisable for shares of common stock having a fair market value at the end of each quarter of \$12,000. We also reimburse directors for travel and other out-of-pocket expenses incurred in attending Board of Director and committee meetings. On April 1, 2013, we paid to each of Messrs. Bernstein, Kalow and Fuller their quarterly director fee of a \$3,000 cash payment and issued each of them options exercisable for 18,462 shares of our Common Stock at an exercise price of \$.65 per share.

#### Employment Agreements

Effective March 6, 2013, John W. Huemoeller II, age 57, was appointed as the Chief Executive Officer, President and Chief Financial Officer of Propell Technologies Group, Inc. (the “Company”). In connection with his appointment, Mr. Huemoeller entered into a three-year employment agreement with the Company (the “Agreement”). Pursuant to the Agreement, Mr. Huemoeller is entitled to receive an annual base salary of \$180,000 and will be entitled to discretionary performance bonus payments. The Agreement provides for a severance payment in the event of employment termination by the Company without Just Cause (as defined in the Agreement), by Mr. Huemoeller for Good Reason (as defined in the Agreement), due to Disability or a Change of Control (each as defined in the Agreement) or death, to Mr. Huemoeller equal to: either (i) one month base salary if at the time of termination the Company has not achieved gross revenue of at least \$1,000,000 or (ii) six (6) months base salary if at the time of termination the Company has achieved gross revenue of at least \$1,000,000. Additionally, Mr. Huemoeller was granted options to purchase 10,000,000 shares of the Company’s common stock with an exercise price equal to \$0.25 per share. These options will vest immediately as to 2,500,012 shares of common stock and the balance pro rata, on a monthly basis, over thirty-six months, with accelerated vesting upon a Change of Control, termination by the Company without Just Cause or by Mr. Huemoeller for Good Reason. The Agreement also includes confidentiality obligations and inventions assignments by Mr. Huemoeller.

Effective March 6, 2013, Mr. Bernstein resigned as our Chief Executive Officer and President and his employment agreement terminated. Previously, on June 30, 2011, Propell and Mr. Bernstein had entered into a new Employment Agreement dated June 30, 2011. That agreement was for a term of three years commencing on June 30, 2011 and provided that Mr. Bernstein would receive a salary of \$175,000 per annum together with a bonus based upon achieving performance goals as set from time to time by the Board (which minimum bonus for the first twelve months of the agreement shall be \$10,000 per quarter). In addition, Mr. Bernstein was granted as of June 30, 2011 an option to purchase 30,000 shares of common stock of Propell at the fair market value of the stock on June 30, 2011, of which 10,000 shares were exercisable immediately and the remaining 20,000 shares vested 1/36 the per month for the remaining 36 months of the agreement.

The Employment Agreements also contained additional provisions which are customary for executive employment agreements of this type. These include confidentiality, non-compete and non-solicitation provisions.

The foregoing description of the Employment Agreement does not purport to be complete, and is qualified in its entirety by reference to the complete text of the employment agreement.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table indicates the number of shares of our common stock and Series A-1 Convertible Preferred Stock that were beneficially owned as of April 3, 2013, by (1) each person known by us to be the owner of more than 5% of our outstanding shares of common stock, (2) our directors, (3) our executive officers, and (4) our directors and executive officers as a group. In general, “beneficial ownership” includes those shares a director or executive officer has sole or shared power to vote or transfer (whether or not owned directly) and rights to acquire common stock through the exercise of stock options or warrants that are exercisable currently or become exercisable within 60 days. Except

as indicated otherwise, the person's name in the table below have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Unless otherwise specified, the address of each of the individuals listed below is c/o Propell Technologies Group, Inc., 1701 Commerce Street, Houston, Texas 77002.

Name	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Common Stock Beneficially Owned (1)	Amount and Nature of Beneficial of Series A-Convertible Preferred	Percent of Series A-1 Convertible Preferred Stock Beneficially Owned (2)
John Huemoeller	3,125,011 (3)	2.30 %		
Edward L. Bernstein	3,564,951 (4)	2.67 %	250,000	5.80 %
Mark Kalow	30,412 (5)	*		
James Fuller	23,862 (6)	*		
John Zotos	312,511 (7)	*		
<b>5% Shareholders</b>				
<b>Joseph W. and Patricia G. Abrams Family Trust (8)</b>				
	6,898,919 (8)	4.90 %	375,000	8.70 %
Joseph Abrams (9)	7,098,919 (9)	5.00 %		
Anuta Limited (Seycheles) (10)	12,500,000	9.30 %		
Base-Marketing Ltd. (Seycheles) (11)	12,500,000	9.30 %		
Demesne Hold Limited (Nevis) (12)	12,500,000	9.30 %		
Greencloud Ltd (Nevis) (13)	12,500,000	9.30 %		
Oxnard Universal SA (14)	10,920,000	8.13 %		
Realcom Ltd (Anguilla) (15)	12,500,000	9.50 %		
Resourse Ingeneering Ltd (BVI) (16)	7,500,000	5.60 %		
Store & Navigation (BVI) (17)	12,500,000	9.30 %		
Mathew Abrams (18)	3,750,000	2.80 %	375,000	8.70 %
Dart Union (19)	5,000,000	3.40 %	500,000	11.59 %
Paramount Capital Inc (20)	3,125,000	2.27 %	312,500	7.30 %
Sufforg Limited Company (21)	12,500,000	9.30 %	1,250,000	28.99 %
Yuzhik Ltd Co (22)	9,500,000	6.7 %		
Saint Paulia Ltd (23)	12,500,000	8.7 %		
Prind Consulting Limited (24)	11,000,000	7.7 %		
<b>DelInvest Limited Commonwealth Trust Limited (25)</b>				
	12,500,000	8.7 %		
AVK-Com Limited (26)	12,500,000	8.7 %		
Hekydrive Limited (27)	12,500,000	8.70 %		
All officers and directors as a group (5 persons)	7,056,747	5.00 %		

\*

Less than 1%

(1) Based on 134,432,871 shares of Common Stock issued and outstanding as of April 3, 2013.

(2) Based on 4,312,500 shares of Series A-1 Convertible Preferred Stock issued and outstanding as of April 3, 2013.

Each holder of the Series A-1 Convertible Preferred Stock is convertible, at the option of the holder, into ten (10) shares of our common stock and each holder is entitled to vote with the common stock on an as converted basis.



- (3) Mr Huemoeller received an option exercisable for 10,000,000 shares of our Common Stock, of which 2,500,012 vested immediately, 208,333 vested on April 6, 2012, 416,666 will vest within the next 60 days and the remainder vest 208,333 on each monthly anniversary of the Effective Date for thirty-six (36) successive months while Consultant is employed by the Company.
- (4) Includes 1,014,489 shares of Common Stock owned by Mr. Bernstein. Also includes 250,000 shares of Series A-1 Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. and options exercisable for 50,462 shares of Common Stock
- (5) Includes 2,550 shares of Common Stock owned by Mr. Kalow. Mr. Kalow also has 27,862 options exercisable within 60 days.
- (6) Mr Fuller has 23,862 options exercisable within 60 days.
- (7) Mr. Zotos received an option exercisable for 1,000,000 shares of our Common Stock , of which 250,012 vested immediately, 20,833 options vested on March 6, 2013, an additional 41,666 will vest within 60 days and the remainder vest 20,833 on each monthly anniversary of the Effective Date for thirty-six (36) successive months while Mr Zotos remains a consultant.
- (8) Includes 542,669 shares of Common Stock owned by the Trust. Joseph W. and Patricia G. Abrams Family Trust have offices at 131 Laurel Grove, Kentfield, CA 94904. Includes 2,606,250 shares of common stock to be issued upon conversion of a note in the principal amount of \$52,125 issued to the Trust. Also includes 375,000 shares of Series A-1 Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock.
- (9) Includes 542,669 shares of Common Stock owned by the Joseph W. and Patricia G. Abrams Family Trust and 200,000 shares of Common Stock owned by Joseph Abrams. Joseph Abrams has offices at 131 Laurel Grove, Kentfield, CA 94904. Includes 3,475,000 shares of common stock to be issued upon conversion of a note in the principal amount of \$69,500 issued to the Trust. Also includes 375,000 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. Does not include shares of stock issuable upon two notes issued to the Trust, which are convertible into shares of common stock at a conversion price equal to the higher of \$.05per share or a 50% discount to the average closing price of our common stock on the three days prior to conversion.
- (10) Ioulia Daliandou is the beneficial owner and director of Anuta Limited. The address of the holder is is Glolxal Gateway 8, Rue DW La Perle, Providence, Mahe Seychelles.
- (11) Elena Zanti is the beneficial owner and director of Base-Marketing, Ltd. The address of the holder is 306 Victoria House, Victoria, Mahe, Seyshelles.
- (12) Christos Anastasiou is the beneficial owner and director Demesne Holdings Limited. The address of the holder is Heritage Plaza, Main Street, Charlestown, Nevis.
- (13) Phee Sim Boon is the beneficial owner and director of Greencloud Ltd. The address of the holder is Nishbets Chambers, Chapel Street, Charlestown, Nevis.
- (14) Jigme Ribi is the beneficial owner and director of Oxnard Universal. The address of the holder is 53rd Street Marbella MMG Tower Floor 16, Panama City, Panama.
- (15) Marinos Anatasion is the beneficial owner and director of Realcom Ltd. The address of the holder is Rogers Office Building Edwin Wallis Red Drive Anguilla, British Virgin Islands.
- (16) Seet Mei Siah is the beneficial owner and director of Resourse Ingeneering Ltd. The addressof the holder is Wickhams Cay, P.O. Box 3483, Road Town, Tortola, British Virgin Islands.
- (17) Lidija Matusseuka is the beneficial owner and director of Store & Navigation Ltd. The address of the holder is Geneva Place, Ocean Front Drive, Tortola, British Virgin Islands.
- (18) Includes 120 shares of Common Stock and 375,000 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. The address of the holder is 131 Laurel Grove Avenue, Kentfield, California 94904.
- (19) Includes 500,000 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. Ivan Yatsenko is the beneficial owner of Dart Union. Does not include shares of stock issuable upon two notes in the principal amount of \$45,000, which are convertible into shares of common stock at

a conversion price equal to the higher of \$.05 per share or a 50% discount to the average closing price of our common stock on the three days prior to conversion. The address of the holder is P.O. Box 3321, Drake Chambers, Road Town, Tortola, British Virgin Islands

(20) Includes 312,500 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. Abraham Morales is the beneficial owner of Paramount Capital Inc. The address of the holder is 15 Forsyth Place, Hamilton, ON L8S 4E5.

- (21) Includes 1,250,000 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. Evgenii Bobovskii is the beneficial owner of Sufforg Limited Company. The address of Sufforg Limited Company is The Mason Complex, Suites 19 and 20, The Valley, Antigua.
- (22) Includes 250,000 shares of Common Stock, 750,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$15,000 and 650,000 shares of Series A Preferred Stock that have the right to ten votes per share and convert to ten shares of common stock. Abraham Morales is the beneficial owner of Paramount. The address of the holder is PO Box 517, Charlestown, Nevis.
- (23) Includes 2,375,000 shares of Common Stock, and 7,125,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$142,500. Anatoli Luzhik is the beneficial owner of Yuzhik Ltd Co. The address of the holder is 1 ½ Miles Northern Highway, Belize City, Belize.
- (24) Includes 3,125,000 shares of Common Stock, and 9,375,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$187,500. Evgeny Andreev is the beneficial owner of Saint Paulia. The address of the holder is 3rd Floor Geneva Place, Road Town, Tortola, British Virgin Islands
- (25) Includes 2,750,000 shares of Common Stock, and 8,250,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$165,000. Samvel Karakhanian is the beneficial owner of PRIND Consulting. The address of the holder is PO Box 3540, Road Town, Tortola, British Virgin Islands
- (26) Includes 3,125,000 shares of Common Stock, and 9,375,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$187,500. Alexander Motorin is the beneficial owner of DeInvest Limited. The address of the holder is PO Box 3321 Road Town, Tortola, British Virgin Islands
- (27) Includes 3,125,000 shares of Common Stock, and 9,375,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$187,500. Victor Amirov is the beneficial owner of AVK-Com Limited. The address of the holder is PO Box 4342 Road Town, Tortola, British Virgin Islands
- (28) Includes 3,125,000 shares of Common Stock, and 9,375,000 shares of Common Stock to be issued upon conversion of a note in the principal amount of \$187,500. Sergei Kastiuk is the beneficial owner of Helydrive. The address of the holder is 177 Main Street Road Town, Tortola, British Virgin Islands

### Item 13. Certain Relationships and Related Transactions, and Director Independence

During the quarter ended September 30, 2012 we issued 250,000 shares of Series A-1 Preferred to the Company's Chief Executive Officer, Edward L. Bernstein, as payment of \$20,000 owed to Mr. Bernstein for services rendered.

In November of 2012, the Company entered into a debt for debt exchange with Joseph Abrams, a shareholder and related party of the Company. Pursuant to the exchange, Mr. Abrams received a \$320,000 convertible note in exchange for a non-interest bearing shareholder loan made by Mr. Abrams to the Company in the amount of \$102,188 and five (5) promissory notes owned by Mr. Abrams, which notes had an aggregate balance due immediately prior to the exchange of \$231,649, including interest accrued thereon of \$51,649 (the five notes carried interest at the rate of 10% per annum and all five notes were in default at the time of the exchange). Subsequent to the exchange Mr. Abrams assigned \$250,500 of the \$320,000 note to a number of private parties and retained \$69,500 in the Joseph Abrams Trust. Under the terms of the convertible note received by Abrams, the note is convertible at any time at a conversion price of \$0.02 per share, pays interest at the rate of 6% per annum and matures on November 19, 2017. (See also Note 5 – “Notes and Convertible Notes Payable” for further discussion of the debt for debt exchange)

During the period ending December 31, 2012 we issued two convertible notes in the principal amount of \$20,000 and \$25,000, respectively, to an investor who is also a shareholder. The notes accrue interest at a rate per annum of 6% and, at the option of the holder, are convertible into shares of our common stock, at the higher of \$.05 per share or 50% of the average closing price of our common stock on the three days prior to the conversion date.

During the period ending December 31, 2012, the Company issued 1,000,000 shares of Common Stock to Edward L. Bernstein, the Company's Chief Executive Officer, as payment of wages owed to Mr. Bernstein.

On March 6, 2013, John Zotos, our director, was also appointed to serve as the Corporate Secretary of the Company for an annual salary of \$30,000 and received options exercisable for 1,000,000 shares of common stock of the Company at an exercise price of \$.25 per share, of which 250,012 shares vested immediately and the remaining options are to vest on a monthly basis over a three-year period, subject to acceleration upon certain events.

## Item 14. Principal Accountant Fees and Services

On January 17, 2013, we dismissed Silberstein Unger, PLLC (“Silberstein”) as its independent registered public accounting firm, and retained Liggett, Vogt and Webb P.A. (“LVW”) as its new independent registered public accounting firm responsible for auditing its financial statements. Silberstein’s reports on our financial statements as of and for the two years ended December 31, 2011 and 2010, did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles except that each of those reports did contain an explanatory paragraph as to the existence of substantial doubt regarding our ability to continue as a going concern. The decision to dismiss Silberstein and the selection of LVW was unanimously approved by our board of directors. During the nine months ended September 30, 2012 and the year ended December 31, 2011, and in the subsequent interim period through January 17, 2013 (the date of dismissal of Silberstein), there were no disagreements with Silberstein, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Silberstein., would have caused it to make reference to the subject matter of the disagreement in connection with its reports on our financial statements for such periods.

The following is a summary of the fees billed to us by our independent registered public accounting firm for professional services rendered for the fiscal years 2012 and 2011:

Service	Fiscal 2012	Fiscal 2011
Audit Fees	\$ 27,500	\$ 25,725
Audit-related Fees	0	0
Tax Fees	0	0
All Other Fees	3,500	0
	\$ 31,000	\$ 25,725

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this Annual Report. All financial statement schedules have been included in the Consolidated Financial Statements or Notes thereto.

No.	Description
2.1	Agreement and Plan of Reorganization between the Registrant, Crystal Magic, Inc. and Crystal Acquisition Corporation (Incorporated herein by reference to the Company’s registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on October 8, 2008)
2.2	Agreement and Plan of Reorganization between the Registrant, Mountain Capital, LLC, Auleron 2005, LLC, Arrow Acquisition Corporation and Auleron 2005 Acquisition Corporation (Incorporated herein by reference to the Company’s registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on October 8, 2008)
2.3	Agreement and Plan of Reorganization dated June 14, 2010 between the Registrant, Designbyhumans.com (“DBH”) the DBH shareholders and DBH Acquisition Corporation (Incorporated herein by reference to the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2010)
3.1	

	Certificate of Incorporation (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
3.2	Certificate of Amendment to Certificate of Incorporation (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
3.3	By-Laws (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
3.4	Certificate of Designations of Series A-1 Convertible Preferred Stock (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on July 13, 2012)
3.5	Certificate of Amendment to the Certificate of Incorporation (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2012)
4.1	2008 Stock Option Plan (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
4.2	Form of 3% Convertible Promissory Note (Incorporated herein by reference to the Company's registration statement on Form S-1/A, as amended filed with the Securities and Exchange Commission on October 8, 2008)
4.3**	Option Agreement between Steven M. Rhodes, Crystal Magic, Inc. and the Registrant (Incorporated herein by reference to the Company's registration statement on Form S-1/A, as amended filed with the Securities and Exchange Commission on October 8, 2008)*

4.4	Amendment to Promissory Note between Registrant and Lanai Investments, LLC (Incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 2008, as amended filed with the Securities and Exchange Commission on April 14, 2009)
4.5	Amendment to Promissory Note between Registrant and Loco Lobo, LLC (Incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 2008, as amended filed with the Securities and Exchange Commission on March 31, 2009)
4.6	Secured Promissory Note dated September 3, 2009 and Amendments(Incorporated herein by reference to the Company's annual report on Form 10-K/A for the year ended December 31, 2009, as amended Filed with the Securities and Exchange Commission on January 14, 2011)
4.7	Security Agreement dated September 3, 2009 between Registrant and Remington Partners, Inc. (Incorporated herein by reference to the Company's annual report on Form 10-K/A for the year ended December 31, 2009, as amended Filed with the Securities and Exchange Commission on January 14, 2011 March 31, 2010)
4.8	Promissory Note dated June 23, 2010 between Registrant and Joseph W. Abrams. (Incorporated by reference to the Company's annual report on Form 10-K/A for the Year Ended December 31, 2010, as amended filed with the Securities and Exchange Commission on June 29, 2011)
4.9	Promissory Note dated December 15, 2010 between Registrant and Joseph W. Abrams. (Incorporated by reference to the Company's annual report on Form 10-K/A for the Year Ended December 31, 2010, as amended filed with the Securities and Exchange Commission on June 29, 2011)
4.10	Promissory Note dated February 15, 2011 between Registrant and Joseph W. Abrams. (Incorporated by reference to the Company's annual report on Form 10-K/A for the Year Ended December 31, 2010, as amended filed with the Securities and Exchange Commission on June 29, 2011)
4.11	6% Convertible Redeemable Note Due June 7, 2012 (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
4.12	6% Convertible Redeemable Note Due June 23, 2012 (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
4.13	Convertible Promissory Note, Issue Date August 3, 2011 (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
4.14	6% Convertible Redeemable Note Due October 2013 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2011)
4.15	6% Convertible Redeemable Note Due October 2012 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2011 )
4.16	Tripod Note Due October 2012 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2011)
4.17	6% Convertible Redeemable Note Due September 5, 2012 (Incorporated by reference to the Company's annual report on Form 10-K/A for the Year Ended December 31, 2010, as amended filed with the Securities and Exchange Commission on June 29, 2011)
4.18	8% Convertible Redeemable Note Due December 5, 2012(Incorporated by reference to the Company's annual report on Form 10-K for the Year Ended December 31, 2011 filed with the Securities and Exchange Commission on April 16, 2012)
4.19	8% Convertible Redeemable Note Due September 5, 2012(Incorporated by reference to the Company's annual report on Form 10-K for the Year Ended December 31, 2011 filed with the Securities and Exchange Commission on April 16, 2012)
10.1	Patent License Agreement between Crystal Magic, Inc. and Laser Design International, LLC dated May 6, 2007 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended

	filed with the Securities and Exchange Commission on May 13, 2008)
10.2	Crystal Magic, Inc. SBA Disaster Loan Control No. 9TFL-00512 dated December 19, 2001 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.3	Crystal Magic, Inc. SBA Loan No. PLP 399-356-4007 dated October 5, 2000 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.4	Crystal Magic, Inc. SBA Loan No. PLP 399-236-4004 dated October 4, 2000 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.5	Crystal Magic, Inc. SBA Loan No. PLP 309-109-4009 dated July 29, 1999 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.6	Operating Agreement between Crystal Magic, Inc. and Cashman Enterprises, Inc dated September 7, 2001 (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.7	Employment agreement between the Registrant and John Wolf (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.8	Employment agreement between the Registrant and Jim Wallace (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.9	Employment agreement between the Registrant and Paul Scapatici (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.10	Employment agreement between the Registrant and Lane Foliott (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.11	Employment agreement between the Registrant and Edward L. Bernstein (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on May 13, 2008)
10.12	Employment agreement between the Registrant and Steven M. Rhodes (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on October 8, 2008)



10.13	Form of Lock-up Agreement (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on October 8, 2008)
10.14	Indemnification Agreement between the Registrant and Steven M. Rhodes and Vicki L. Rhodes (Incorporated herein by reference to the Company's registration statement on Form S-1, as amended filed with the Securities and Exchange Commission on October 8, 2008)
10.15	Amendment to Employment Agreement between the Registrant and John Wolf (Incorporated herein by reference to the Company's filed with the Securities and Exchange Commission on April 14, 2009)
10.16	Amendment to Employment Agreement between the Registrant and Jim Wallace (Incorporated herein by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2009)
10.17	Amendment to Employment Agreement between the Registrant and Paul Scapatici (Incorporated herein by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2009)
10.18	Amendment to Employment Agreement between the Registrant and Lane Foliott (Incorporated herein by reference to the Company's annual report on Form 10-K as amended filed with the Securities and Exchange Commission on April 14, 2009)
10.19	Amendment to Employment Agreement between the Registrant and Edward L. Bernstein (Incorporated herein by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2009)
10.20	Amendment to Employment Agreement between the Registrant and Steven M. Rhodes (Incorporated herein by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2009)
10.21	Release, Termination and Restructuring Agreement between Registrant and Steven M. Rhodes dated April 8, 2009 (Incorporated herein by reference to the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2009)
10.22**	Employment Agreement between Propell and Edward L. Bernstein dated June 30, 2011 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on July 5, 2011)
10.23	Consulting Agreement dated July 25, 2011 (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
10.24	Agreement to Exchange Note for Stock (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
10.25	Consulting Agreement dated May 1, 2011 (Incorporated by reference to the Company's quarterly report on Form 10-Q for the Quarter ended June 30, 2011, as amended filed with the Securities and Exchange Commission on August 15, 2011)
10.26	Share Issuance Agreement dated October 23, 2011 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2011)
10.27	Share Exchange Agreement dated February 4, 2013 (Incorporated herein by reference to the Company's annual report on form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 31, 2012)
10.28**	Employment Agreement between Propell and John Huemoeller II dated March 6, 2013 (Incorporated herein by reference to the Company's current report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2013)
10.29	License Agreement between Novas Energy (USA), Inc. and Novas Energy Group Limited *
10.30	Consulting Agreement between Propell and John Zotos dated March 6, 2013 *
14.1	

Code of Ethics (Incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 2008, as amended filed with the Securities and Exchange Commission on March 31, 2009)

21.1 List of Subsidiaries of the Registrant\*

31.1 Certification of our Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

31.2 Certification of our Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

32.1 Certification of our Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

32.2 Certification of our Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\*\*+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

\* Filed Herewith

\*\* Management contract or compensatory plan or arrangement required to be identified pursuant to Item 15(a)(3) of this report

\*\*+ As provided in Rule 406T of Regulation S-T, this information is deemed furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

PROPELL TECHNOLOGIES GROUP, INC.

By: /s/ John W. Huemoeller II  
John W. Huemoeller II  
President, Chief Executive Officer  
and Chief Financial Officer  
(Principal Executive Officer and  
Principal Financial Officer)

Date: April 15, 2013

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 15, 2013

By: /s/ John W.  
Huemoeller II  
John W. Huemoeller II  
President, Chief  
Executive Officer  
and Chief Financial  
Officer and  
Director (Principal  
Executive Officer and  
Principal Accounting  
Officer)

Date: April 15, 2013

By: /s/ Edward Bernstein  
Edward Bernstein  
Director

Date: April 15, 2013

By: /s/ Mark Kalow  
Mark Kalow  
Director

Date: April 15, 2013

By: /s/ James Fuller  
James Fuller  
Director

Date: April 15, 2013

By: /s/ John Zotos  
John Zotos  
Director

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PROPELL TECHNOLOGIES GROUP, INC.

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DECEMBER 31, 2012

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Propell Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of Propell Technologies Group, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and cash flows for each of the years ended December 31, 2012 and 2011, in conformity with generally accepted accounting principles in the United States.

The accompanying consolidated financial statements have been prepared assuming that Propell Technologies Group, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and will have to obtain additional capital to sustain operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Liggett, Vogt & Webb, P.A.  
Liggett, Vogt & Webb, P.A.  
New York, New York  
April 9, 2013

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Propell Technologies Group, Inc. and Subsidiaries  
Consolidated Balance Sheets

	December 31,	
	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 2,774	\$ 5,242
Accounts receivable (net of allowances)	32	718
Prepaid expenses	1,946	27,266
Due from others	-	591
Deposits - current	-	1,849
<b>Total Current Assets</b>	<b>4,752</b>	<b>35,666</b>
Property and Equipment, net	1,541	3,582
<b>Other Assets</b>		
Website, net	800	2,400
<b>Total Assets</b>	<b>\$ 7,093</b>	<b>\$ 41,648</b>
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 38,076	\$ 290,678
Accrued liabilities	85,176	80,191
Accrued interest	13,824	340,760
Notes payable and advances - related parties	3,000	415,188
Convertible notes payable, net of discount of \$0 and 48,277 respectively	-	1,384,948
Convertible notes payable related parties	45,000	-
Derivative liability	-	57,925
Liabilities from discontinued operations	1,221,008	1,221,008
<b>Total Current Liabilities</b>	<b>1,406,084</b>	<b>3,790,698</b>
<b>Long Term Liabilities</b>		
Convertible notes payable related parties, net of discount of \$1,960,093 and \$0 respectively	39,907	-
<b>Total Long Term Liabilities</b>	<b>39,907</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,445,991</b>	<b>3,790,698</b>
<b>Stockholders' Deficit</b>		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, 5,000,000 and 0 shares issued and outstanding, respectively. (liquidation preference \$400,000 and \$0, respectively)	5,000	-
	1,958	518

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Common stock, \$0.001 par value; 100,000,000 shares authorized, 1,957,871 and 518,231 shares issued and outstanding, respectively

Additional paid-in capital	4,766,059	2,184,130
Accumulated deficit	(6,211,915)	(5,933,698)
Total Stockholders' Deficit	(1,438,898)	(3,749,050)
Total Liabilities and Stockholders' Deficit	\$ 7,093	\$ 41,648

See notes to consolidated financial statements

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Propell Technologies Group, Inc. and Subsidiaries  
Consolidated Statements of Operations

	Years Ended December 31,	
	2012	2011
Net Revenues	\$ 59,915	\$ 204,796
Cost of Goods Sold	46,916	138,874
Gross Profit	12,999	65,922
Compensation	108,458	486,557
Sales and Marketing	63,666	102,555
Professional Fees	166,044	182,707
General and administrative	208,567	446,119
Total Expense	546,735	1,217,938
Loss from Operations	(533,736 )	(1,152,016)
Other Income	235,727	34,070
Debt forgiveness	493,609	-
Interest Expense	(470,866 )	(256,101 )
Other Expenses	(2,951 )	-
Loss before Provision for Income Taxes	(278,217 )	(1,374,047)
Provision for Income Taxes	-	-
Net Loss	(278,217 )	(1,374,047)
Preferred dividends	409,060	-
Net loss to common stockholders	\$ (687,277 )	\$ (1,374,047)
Net Loss Per Share - Basic and Diluted	\$ (1.02 )	\$ (2.85 )
Weighted Average Number of Shares Outstanding - Basic and Diluted	674,111	481,715

See notes to consolidated financial statements

Propell Technologies Group, Inc. and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Deficit  
Years Ended December 31, 2012 and 2011

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Deficit
Balance, December 31, 2010	-	\$ -	455,152	\$ 455	\$ 1,784,361	\$ (4,559,651)	\$ (2,774,835)
Services rendered	-	-	34,300	34	206,466	-	206,500
Conversion from debt to equity	-	-	28,779	29	100,525	-	100,554
Stock option grants	-	-	-	-	92,778	-	92,778
Net loss for year ended December 31, 2011						(1,374,047)	(1,374,047)
Balance, December 31, 2011	-	-	518,231	518	2,184,130	(5,933,698)	(3,749,050)
Preferred shares sold	2,875,000	2,875	-	-	227,125	-	230,000
Preferred shares issued in connection with conversion from debt and interest to equity	2,125,000	2,125	-	-	176,935	-	179,060
Recognition of stock based compensation in connection with common stock option grants	-	-	-	-	41,209	-	41,209
Common shares issued in connection with the conversion of debt and accrued interest to equity	-	-	223,199	223	56,043	-	56,266
Debt forgiveness by shareholders	-	-	-	-	51,557	-	51,557
Common shares issued for	-	-	1,208,320	1,208	26,120	-	27,328

compensation							
Common shares issued as an inducement to assign convertible debt	-	-	8,059	81	2,868	-	2,949
Par value adjustment and shares issued due to rounding in reverse stock split	-	-	62	(72 )	72	-	-
Debt discount for conv Notes issued November 30, 2012	-	-			2,000,000	-	2,000,000
Net loss for year ended December 31, 2012						(278,217 )	(278,217 )
Balance, December 31, 2012	5,000,000	\$ 5,000	1,957,871	\$ 1,958	\$ 4,766,059	\$ (6,211,915)	\$ (1,438,898)

See notes to consolidated financial statements

Propell Technologies Group, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the year	\$ (278,217 )	\$ (1,374,047)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	2,041	2,028
Amortization expense	1,600	1,600
Amortization of debt discount	39,907	43,718
Change in fair value of derivative liability	(57,925 )	(34,070 )
Bad debt expense	-	4,485
Stock options issued for services	41,209	92,778
Stock issued as inducement to convert debt	2,949	180,861
Debt forgiveness	493,609	-
Changes in Assets and Liabilities		
Accounts receivable	686	(613 )
Due from others	1,849	769
Inventory	-	521
Unbilled receivables	591	-
Prepaid expenses	25,320	3,426
Accounts payable	(331,317 )	104,920
Accrued expenses	4,666	46,067
Accrued interest	(326,936 )	210,160
<b>CASH USED IN OPERATING ACTIVITIES</b>	<b>(379,968 )</b>	<b>(717,397 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Security deposits	-	(350 )
Purchase of property and equipment	-	(3,838 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>(4,188 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cost of issuance of redeemable preferred	230,000	
Proceeds from convertible note	-	308,000
Proceeds from notes payable and advances	147,500	362,188
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>377,500</b>	<b>670,188</b>
<b>NET DECREASE IN CASH</b>	<b>(2,468 )</b>	<b>(51,397 )</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>5,242</b>	<b>56,639</b>
<b>CASH AT YEAR END</b>	<b>\$ 2,774</b>	<b>\$ 5,242</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Convertible notes and interest converted into common stock	\$ 203,627	\$ 100,554
Common stock issued for services and classified as prepaid expense at December 31, 2011	\$ -	\$ 25,639

See notes to consolidated financial statements

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Propell Technologies Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

Note 1 Organization and Summary of Significant Accounting Policies

(A) Description of the Business

Propell Technologies Group, Inc. (fka Propell Corporation) is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. ("CMI"), a Florida Corporation, merged with an acquisition subsidiary of Propell's, and the Company issued an aggregate of 180,000 shares to the former shareholders of CMI. On May 6, 2008, the Company acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) ("AMS") and Auleron 2005, LLC (d/b/a Auleron Technologies) ("AUL") and made each a wholly owned subsidiary and issued a total of 41,897 shares of the Company's common stock to the members of Mountain Capital, LLC and a total of 2,722 shares of the Company's common stock to the members of AUL. In 2010 AUL and AMS were dissolved and the operations of CMI were discontinued.

(B) Principles of Consolidation

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

(C) Going Concern

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

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

(D) Use of Estimates

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

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

(E) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Revisions to the allowance for doubtful accounts estimates are recorded as an adjustment to bad debt expense. Receivables deemed uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. There were no recoveries during the year ended December 31, 2012.

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## Propell Technologies Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

## Note 1 Organization and Summary of Significant Accounting Policies (continued)

## (F) Revenue Recognition

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

## (G) Risks and Uncertainties

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

## (H) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At December 31, 2012 and 2011, 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 December 31, 2012 and December 31, 2011, the balance did not exceed the federally insured limit.

## (I) Property and Equipment

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

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

## (J) Inventory

The Company has no inventory as of December 31, 2012.

## (K) Long Term Assets

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





Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 1 Organization and Summary of Significant Accounting Policies (continued)

(L) Net Loss per Share

Basic earnings (loss) per share and diluted earnings (loss) per share are computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding. The Company's share equivalents consist of 38,430 and 96,880 stock options for the years ended December 31, 2012 and 2011 respectively. Since the Company reported a net loss for the years ended December 31, 2012 and 2011, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

(M) Fair Value of Financial Instruments

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

(N) Share-Based Payment Arrangements

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

(O) Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A full valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized. It is the Company's policy to classify interest and penalties on income taxes as interest expense or penalties expense. As of December 31, 2012, there have been no interest or penalties incurred on income taxes.

(P) Reverse Stock Split

On August 17, 2012 the Company effectuated a 1 for 50 reverse stock split. All common share and common share rights have been adjusted for this reverse stock split.

(Q) Recent Accounting Pronouncements

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

Note 2 Prepaid Expenses

For the year ended December 31, 2012 the Company had prepaid expenses of \$1,945 comprised of \$852 of prepaid insurance and \$1,093 of prepaid cost of goods sold.

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For the year ended December 31, 2011 the Company had prepaid expenses of \$27,266 comprised of \$1,627 of prepaid insurance and \$25,639 of prepaid investor relations services.

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## Propell Technologies Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

## Note 3 Property and Equipment

Property and Equipment consisted of the following at December 31, 2012 and 2011:

	2012	2011
Furniture and fixtures	\$ 500	\$ 500
Computer and equipment	7,744	7,744
Total cost	8,824	8,824
Less: accumulated depreciation	(7,283 )	(5,242 )
Property and equipment, net	\$ 1,541	\$ 3,582

Depreciation expense was \$2,041 and \$2,028 for the periods ended December 31, 2012 and 2011, respectively.

## Note 4 Accrued Liabilities

At December 31, 2012 and 2011 accrued expenses consisted of the following:

	2012	2011
Payroll	\$78,125	\$70,782
Taxes	212	165
Other	6,839	9,244
Total accrued expenses	\$85,176	\$80,191

## Note 5 Notes and Convertible Notes Payable at December 31, 2012 – Related Parties

Convertible Notes Payable	Principal Amount
6% convertible notes payable, due November 19, 2017	\$2,000,000.00
6% convertible notes payable, due October 31, 2013	45,000.00
less debt discount	(1,960,093.00)
Total convertible notes payable, net of discount	\$84,907.00

Effective November 20, 2012 the Company entered into a number of debt for debt exchanges involving its outstanding (i) convertible debt, (ii) non-convertible debt and (iii) non-interest bearing shareholder advance. The aggregate debt retired in the exchanges totaled \$2,304,311 immediately prior to the exchange, including interest accrued thereon of \$560,025 (\$2,225,389, including interest accrued thereon of \$503,058, as of September 30, 2012). The Company issued \$2,000,000 face value of new convertible debt in order to consummate the exchanges (the “Exchange Debt”), all of which accrues interest at the rate of six percent 6% percent per annum, matures on November, 19, 2017, and is convertible into the Company’s common stock at a conversion price of \$.02 per share. Of the \$2,000,000 of Exchange Debt, \$1,680,000 was issued to Starlight Capital Limited (“Starlight”) in exchange for nine (9)

convertible notes owned by Starlight, which notes had an aggregate balance due immediately prior to the exchange of \$1,970,474, including interest accrued thereon of \$508,376 (the nine notes that were retired by the exchange carried interest at rates between 6% and 15% per annum). Subsequent to the exchange Starlight assigned the \$1,680,000 note to a number of private parties. The remaining \$320,000 of Exchange Debt was issued to Joseph Abrams, a shareholder and related party of the Company, in exchange for a non-interest bearing shareholder loan made by Mr. Abrams to the Company in the amount of \$102,188 and five (5) promissory notes owned by Mr. Abrams, which notes had an aggregate balance due immediately prior to the exchange of \$231,649, including interest accrued thereon of \$51,649 (the five notes carried interest at the rate of 10% per annum and all five notes were in default at the time of the exchange). Subsequent to the exchange Mr. Abrams assigned \$250,500 of the \$320,000 note to a number of private parties and retained \$69,500 in the Joseph Abrams Trust.

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## Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

## Note 5 Notes and Convertible Notes Payable at December 31, 2012 – Related Parties (continued)

The \$2,000,000 of Exchange Debt is convertible into 100,000,000 shares of the Company's common stock at a conversion price of \$.02 per share. The conversion price on the Exchange Debt was deep in the money at the time of the exchange. As a result, the Company assumes a 100% debt discount of the Exchange Debt, which discount is then amortized over the life of the Exchange Debt. For the period ending December 31, 2012 the unamortized debt discount, is \$1,960,093, leaving a balance of \$39,907. (See also Note 13 – "Subsequent Events" for discussion of post year-end conversion of \$500,000 of Exchange Debt into Common Stock)

In February 2012, Joseph Abrams advanced the Company an additional \$20,000 on which the Company accrued interest at the rate of 10% per annum. This note is included in the five (5) notes mentioned above that were exchanged in November 2012.

During the quarter ending March 31, 2012, the Company borrowed \$32,500 under a nine month unsecured convertible note from a shareholder. The note accrued interest at the rate of 8% per annum, was due on December 12, 2012 and was convertible by the holder after 180 days at 65% of the average of the lowest five closing bid prices in the ten trading day period before the conversion. The note was included in the debt for debt exchange described above.

In April through June 2012, several individuals advanced the company a total of \$55,000, in anticipation of a new round of equity financing. These advances were converted to equity in July 2012.

On October 31, 2012 the Company issued a convertible note for cash for \$20,000 and on November 26, 2012 the Company issued a convertible note for cash for \$25,000. Both convertible notes are unsecured, bear interest at the rate of six percent (6%) per annum and mature on October 31, 2013. The notes are convertible at a conversion price equal to the higher of \$0.05 per share or a 50% discount to the 3-day average closing price of the Company's Common Stock for the three (3) business days immediately preceding the date of a conversion request from a holder.

## Note 6 Notes and Convertible Notes Payable at December 31, 2011

Convertible Notes Payable	Principal Amount
15% convertible notes payable to Remington Partners, due August 31, 2012	\$1,167,500
6% convertible note to Tripod Group, LLC, due June 23, 2012	7,725
6% convertible note to Prolific Group LLC, due June 7, 2012	40,000
8% convertible note to Asher Enterprises, Inc., due May 7, 2012	53,000
8% convertible note to Asher Enterprises, Inc., due June 12, 2012	32,500
6% convertible note to Tripod Group, LLC, due August 24, 2012	50,000
6% convertible note to Tripod Group, LLC, due October 23, 2012	50,000
8% convertible note to Asher Enterprises, Inc., due September 5, 2012	32,500
Total convertible notes payable	1,433,225
Debt Discount	(48,277 )
	\$1,384,948



Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 6 Notes and Convertible Notes Payable at December 31, 2011 (continued)

In 2009 and 2010 the Company borrowed \$1,067,500 under the terms of a convertible note payable with Remington Partners. During the twelve months ended December 31, 2011 the Company borrowed an additional \$100,000 under the same note. Initially this note was convertible into shares of the Company's common stock at the lenders option at the lower of \$13.50 per share or a twenty-five percent (25%) discount from the next issuance of common stock by the Company. The original note was due on February 28, 2010. In March 2010, the note was amended to change the due date to June 30, 2010 and the maximum amount of the Note was increased to \$1 Million. In July, 2010, the Note-holder notified the Company of its intention to convert the Note, upon the Company completing a financing of at least \$1.5 million. In February 2011, the Note was amended to increase the maximum amount to \$2.0 million, to change the due date to August 31, 2011 and to allow the Company the option to convert the Note once it has raised \$500,000 in new equity. In October 2011, the note was again amended to change the due date to August 31, 2012. All other terms remained the same.

In June 2011, a lender sold \$50,000 of a \$100,000 unsecured note to Tripod Group, LLC (see notes payable, below). The Company subsequently renegotiated the terms of this note by reducing the interest rate to 6% per annum payable in Company stock; extending the due date to June 23, 2012; and adding a conversion feature whereby the holder may convert the note to shares in the Company at a price equal to 65% of the lowest closing bid price for any of the five trading days before the date of conversion. Through December 31, 2011, the Holder had exercised his right to convert \$42,275 of the Note for 14,215 shares.

In August 2011, a lender sold \$50,000 of a \$100,000 unsecured note to Tripod Group, LLC (see notes payable, below). The Company subsequently renegotiated the terms of this note by reducing the interest rate to 6% per annum payable in Company stock; changing the due date to August 24, 2012; and adding a conversion feature whereby after December 7, 2011 the holder may convert the note to shares in the Company at a price equal to 65% of the lowest closing bid price for any of the five trading days before the date of conversion. Through December 31, 2011, the Holder had not exercised his right to convert any of the Note.

In June 2011, the Company borrowed \$40,000 under a one year unsecured note with Prolific Group, LLC. Interest accrues on the note at the rate of 6% per annum payable in common stock of the Company. This note is convertible by the holder into common stock of the Company any time after December 7, 2011 at a price equal to 65% of the lowest closing bid price for any of the five trading days before the date of conversion.

In August, September and December 2011, the Company borrowed \$53,000, \$32,500, and \$32,500 respectively, from Asher Enterprises, Inc. All three notes accrue interest at the rate of 8% per annum. They are due on May 12, 2012, June 12, 2012, and September 5, 2012 respectively. These notes are convertible by the holder after 180 days at 65% of the average of the lowest five closing bid prices in the ten trading day period before the conversion. The note has no financial covenants.

On October 23, 2011, the "Company, issued to Tripod Group, LLC ("Tripod") convertible redeemable promissory notes in the principal amounts of: (i) \$150,000 (the "\$150,000 Note") and (ii) \$50,000 (the "\$50,000 Note"); the \$150,000 Note and the \$50,000 Note being collectively referred to as the "Notes". The \$150,000 Note and the \$50,000 Note, together with all accrued interest, are due and payable on October 23, 2013 and October 23, 2012, respectively, and bear interest at a rate of 6% per annum, payable in shares of the Company's common stock. The principal amount of the Notes is convertible at any time after April 23, 2012, at the option of Tripod, at a conversion price), subject to



adjustment as set forth in the Notes, equal to 65% of the lowest closing bid price of the Company's common stock on the five trading days preceding the notice of conversion (including the day upon which a notice of conversion is received by the Company. The conversion price may also be adjusted downward if, within three business days of receipt of a notice of conversion the common stock has a closing bid price which is five percent (5%) or lower than the price set forth in the notice of conversion. The Company shall have the right, at any time, to redeem the Notes in whole and pay to Tripod 125% of the then unpaid principal amount of the Notes.

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## Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

## Note 6 Notes and Convertible Notes Payable at December 31, 2011 (continued)

In connection with the issuance of the \$150,000 Note, the Company issued to Tripod a note in the principal amount of \$150,000 (the "Tripod Note") that bears interest at a rate of 6% per annum and matures: (i) \$50,000 on the earlier of: (x) August 23, 2012 or (y) the date that the first \$50,000 is converted under the \$150,000 Note, unless we do not meet the current information requirements under Rule 144 of the Securities Act of 1933, as amended, in which case the \$50,000 shall be due on October 23, 2012 instead; (ii) \$50,000 on the earlier of: (x) September 23, 2012 or (y) the date that the second \$50,000 is converted under the \$150,000 Note, unless we do not meet the current information requirements under Rule 144 in which case the \$50,000 shall be due on October 23, 2012 instead; and \$50,000 on the earlier of: (x) October 23, 2012 or (y) the date that the second \$50,000 is converted under the \$150,000 Note. The note is secured by four promissory notes of a third party issued to Tripod with a value of \$10,000 left unconverted and promissory notes of such third party issued to Tripod in the aggregate principal amounts of \$190,000.

On October 23, 2011, the Company entered into a Share Issuance Agreement with Tripod (the "Share Issuance Agreement") pursuant to which the Company issued 2,000 shares of common stock (the "Shares") to Tripod to be held in escrow and released as follows: (i) 666 of the Shares will be released to Tripod if the Company elects to disallow the conversion of \$50,000 in principal of the \$150,000 Note; (ii) 667 of the Shares will be released to Tripod if the Company elects to disallow the conversion of the second \$50,000 in principal of the \$150,000 Note; and (iii) the final 667 of the Shares will be released to Tripod if the Company elects to disallow the conversion of the final \$50,000 of the \$150,000 Note, in each case such \$50,000 in principal of the \$150,000 Note to be cancelled along with an offsetting \$50,000 of the Tripod Note.

Notes Payable	Principal Amount
10% note to Joseph Abrams due December 15, 2011	50,000
12 % note to Joseph Abrams due February 10, 2012	100,000
10% note to Joseph Abrams due May 20, 2012	25,000
10% note to Joseph Abrams due June 13, 2012	40,000
10% note to Joseph Abrams due July 7, 2012	35,000
10% note to Joseph Abrams due July 27, 2012	20,000
10% note to Joseph Abrams due August 31, 2012	30,000
Advances from Mr. Abrams – non-interest bearing	112,188
Loan from shareholder – non-interest bearing	3,000
Total notes payable and accrued interest	\$415,188

In June 2010, the Company borrowed \$100,000 under a one year unsecured note from a shareholder. Interest accrued on the note at the rate of 8% per annum. In June 2011, the shareholder sold his interest in \$50,000 of this note to Tripod Group LLC. On August 8, 2011, Mr. Abrams agreed to convert the remaining \$50,000 on the June 2010 Note and the accrued interest of \$8,279.45 into 14,570 shares of the Company's common stock (\$4.00 per share).

In December 2010, Mr. Abrams loaned the Company an additional \$100,000 under similar terms, except that the interest rate on this note is 12% per annum, with a due date of December 15, 2011. On February 10, 2011, the shareholder lent us an additional \$100,000 which is due February 10, 2012. This loan accrues interest at the rate of 12% per annum and has no financial covenants. In August 2011, the shareholder sold his interest in \$50,000 of this

note to Tripod Group LLC.

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Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 6 Notes and Convertible Notes Payable at December 31, 2011 (continued)

During the period May 2011 through August 2011, Mr. Abrams loaned the Company an additional \$150,000 in a series of unsecured one year notes all with the same terms. In addition to terms described in the table above, these notes have no financial covenants. In October through December 2011, Mr. Abrams advanced the Company \$112,188 on which the Company is accruing interest at the rate of 10% per annum.

Note 7 Notes Payable – Discontinued Operations

The Company's Crystal Magic subsidiary has four (4) notes all of which are either guaranteed or funded by the United States Small Business Administration (SBA). At December 31, 2012, the notes total an aggregate of approximately \$838,542. Crystal Magic is in default on all of these notes. In September 2010, the bank managing the loans for the SBA seized substantially all of the assets of CMI and subsequently sold these assets. In addition, the Company estimates that there are \$382,866 of past due accounts payable at CMI.

Note 8 Related Party Transactions

In November of 2012, the Company entered into a debt for debt exchange with Joseph Abrams, a shareholder and related party of the Company. Pursuant to the exchange, Mr. Abrams received a \$320,000 convertible note in exchange for a non-interest bearing shareholder loan made by Mr. Abrams to the Company in the amount of \$102,188 and five (5) promissory notes owned by Mr. Abrams, which notes had an aggregate balance due immediately prior to the exchange of \$231,649, including interest accrued thereon of \$51,649 (the five notes carried interest at the rate of 10% per annum and all five notes were in default at the time of the exchange). Subsequent to the exchange Mr. Abrams assigned \$250,500 of the \$320,000 note to a number of private parties and retained \$69,500 in the Joseph Abrams Trust. Under the terms of the convertible note received by Abrams, the note is convertible at any time at a conversion price of \$0.02 per share, pays interest at the rate of 6% per annum and matures on November 19, 2017. (See also Note 5 – “Notes and Convertible Notes Payable” for further discussion of the debt for debt exchange)

Note 9 Other Income and Income from Debt Forgiveness

For the year ended December 31, 2012 the Company had income from debt forgiveness of \$493,609 comprised of (i) \$304,311 of debt forgiveness associated with debt for debt exchanges, and (ii) \$189,398 related to various settlements with employees and vendors at discounts to the amount due at the time of the settlement. In addition, the Company realized other income of \$235,727 from the elimination of derivative liability as a result of exchanging fixed conversion price convertible debt for floating conversion price convertible debt (See also Note 5 – “Notes and Convertible Notes Payable at December 31, 2012” for discussion of debt for debt exchanges).

For the year ended December 31, 2011 the Company had other income of \$34,070 related to the change in the fair value of its derivative liability.

Note 10 Stockholders' Equity

(A) Common Stock Issuances of Issuer for the Year ended December 31, 2012

On August 17, 2012 the Company effectuated a 1 for 50 reverse stock split. All common share and common share rights have been adjusted for this reverse stock split.

During the quarter ending March 31, 2012, the Company issued 42,627 shares of the Company's common stock in connection with the conversion of \$22,385 of debt and related accrued interest.

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Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 10 Stockholders' Equity (continued)

During the quarter ended June 30, 2012, the Company; (i) issued 180,572 shares of common stock in connection with the conversion of an aggregate of \$53,628 of convertible debt and related accrued interest, (ii) issued 8,059 shares of restricted common stock as an inducement for a convertible lender to sell his debt to a third party, and (iii) issued 8,320 shares of common stock to two former employees as a partial settlement of wages due them.

During the period ending December 31, 2012, the Company issued 1,000,000 shares of Common Stock to Edward L. Bernstein, the Company's Chief Executive Officer, as payment of wages owed to Mr. Bernstein, and 200,000 shares to the Company's law firm, for services rendered. In addition, the Company issued two convertible notes for cash for \$20,000 and \$25,000 (\$45,000 total) (See also Note 5 – "Notes and Convertible Notes Payable" for a discussion of the two convertible notes).

(B) Common Stock Issuances of Issuer

For the Year ended December 31, 2011

On May 1, 2011, the Company issued 10,000 shares of common stock to Undiscovered Equities pursuant to an investor relations consulting agreement dated May 1, 2011. The Investor Relations Agreement is for a term of six months commencing May 4, 2011 (unless earlier terminated), and provides for the Company's issuance of 10,000 shares of restricted common stock and 10,000 warrants with an exercise price of \$12.50 per share which expire on May 4, 2014. The Company recorded \$60,000 in expense for the year ended December 31, 2011.

During the year ended December 31, 2011, the Company issued 14,209 shares of common stock in conjunction with the conversion of \$42,275 from a convertible note.

The Company issued 10,000 shares of common stock to Blue Wave Advisors pursuant to an investor relations consulting agreement dated July 25, 2011. The Investor Relations Agreement is for a term of six months commencing July 25, 2011 (unless earlier terminated), and provides for the Company's issuance of 10,000 shares of restricted common stock. The Company recorded \$56,694 in expense for the year ended December 31, 2011.

The Company issued 10,000 shares of common stock to Strategic IR pursuant to an investor relations consulting agreement dated August 23, 2011. The Investor Relations Agreement is for a term of twelve months commencing August 23, 2011 (unless earlier terminated), and provides for the Company's issuance of 10,000 shares of restricted common stock and 2,000 warrants with an exercise price of \$12.50 per share which expire on August 23, 2014. The Company recorded \$42,667 in expense for the year ended December 31, 2011.

On August 8, 2011, the Company issued 14,570 shares of the Company's common stock in connection with the conversion of \$58,279 of debt and accrued interest. The Company took a charge of \$43,718 as debt conversion expense.

During the year ended December 31, 2011, the Company issued 4,300 shares to two individuals in connection with services rendered. The shares were valued at \$21,500.



Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

Note 10 Stockholders' Equity (continued)

(C) Series A-1 Convertible Preferred Stock

The Company has authorized and outstanding 5,000,000 shares of the Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred") The rights, privileges and preferences of the Series A-1 Preferred are as follows; (i) each share of Series A-1 Preferred is convertible into ten (10) shares of Common Stock; (ii) each holder of Series A-1 Preferred is entitled to vote on all matters submitted to a vote of the stockholders of the Company and shall be entitled to that number of votes equal to the number of shares of Common Stock into which such holder's shares of Series A-1 Preferred could then be converted, (iii) there shall be no adjustment made to the conversion ratio of the Series A-1 Preferred for any stock split, stock dividend, combination, reclassification or other similar event, (iv) the Series A-1 is non-redeemable, (v) upon such time that any dividend is paid to the holders of

Common Stock, the holders of Series A-1 Preferred shall be entitled to a dividend in an amount per share equal to that which such holders would have been entitled to receive had they converted all of the shares of Series A-1 Preferred into Common Stock immediately prior to the payment of such dividend, (vi) each share of Series A-1 Preferred is entitled to a liquidation preference of \$.08 per share, and (vii) the approval of the holders of at least 2/3 (66.6%) of the outstanding shares of the Series A-1 Preferred, voting together separately as a class, is required for (a) the merger, sale of all, or substantially all of the assets or intellectual property, recapitalization, or reorganization of the Company, (b) the authorization or issuance of any equity security having any right, preference or priority superior to or on a parity with the series A-1 Preferred, (c) the redemption, repurchase or acquisition of any of the Company's equity securities or the payment of any dividends or distributions thereon, (d) any amendment or repeal of the Company's Articles of Incorporation or Bylaws that would have an adverse affect on the rights, preferences or privileges of the Series A-1 Preferred, and (e) the making of any loan or advance to any person except in the ordinary course of business.

During the quarter ended September 30, 2012, the Company; (i) sold 2,875,000 shares of Series A-1 Convertible Preferred Stock (the "Series A-1 Preferred") to one entity for \$230,000, (ii) retired \$109,060 of debt, including interest thereon of \$9,060, by issuing 1,250,000 shares of Series A-1 Preferred, (iii) issued 625,000 shares of Series A-1 Preferred as retirement of \$50,000 of outstanding debt, and (iv) issued 250,000 shares of Series A-1 Preferred to the Company's Chief Executive Officer, Edward L. Bernstein, as payment of \$20,000 owed to Mr. Bernstein for services rendered.

The Company recorded a \$409,060 dividend to its preferred stockholders as a result of the in the money conversion into common shares.

(D) Stock Option Plan

In 2008 the Company's Board of Directors approved the Company's 2008 Stock Option Plan (the "Stock Plan") for the issuance of up to five (5) million shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The exercise price of stock options under the Stock Plan is determined by the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. At



December 31, 2012 and 2011, there were 55,280 and 96,880 options issued and outstanding, respectively, under the Stock Plan.

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

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## Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

## Note 10 Stockholders' Equity (continued)

The Company has applied fair value accounting for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes assumptions used in the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Exercise price	5.00 - \$25.00	7.50 - \$13.50
Expected dividends	0 %	0 %
Expected volatility	376 %	123 %
Risk free interest rate	0.16% to 2.315%	1.14% to 1.77%
Expected life of option	5-7 years	5-7 years
Expected forfeitures	0 %	0 %

The Company has applied fair value accounting for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. There is no deferred compensation recorded upon initial grant date, instead, for employees, the fair value of the share-based payment is recognized ratably over the stated vesting period. For consultants, the fair value is recognized as expense immediately. The Company has recorded an expense of \$41,209 and \$92,778 in years ended December 31, 2012 and December 31, 2011, respectively, in G&A other.

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

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance, December 31, 2010	39,480	\$ 18.50		
Granted	92,800	6.00	6.46	
Exercised	0			
Forfeited	(35,400 )	16.50		
Balance, December 31, 2011	96,880	7.50	8.12	\$ 0
Granted	0			
Exercised	0			
Forfeited	(41,600 )	5.00		

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Balance, December 31, 2012 - Outstanding	55,280	7.50	7.63	\$ 0
Balance, December 31, 2012 - Exercisable	38,430	10.00	7.20	\$ 0

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## Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

## Note 10 Stockholders' Equity (continued)

The options outstanding and exercisable at December 31, 2012 are as follows:

Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable		
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$25.00	2,500	6.46 years	\$25.00	2,500	\$25.00	7.46 years
\$13.50	4,480	5.35 years	\$13.50	14,480	\$13.50	6.35 years
\$12.50	2,000	7.79 years	\$12.50	2,000	\$12.50	8.79 years
\$8.50	30,500	8.24 years	\$8.50	20,250	\$8.50	9.43 years
\$5.00	14,800	8.49 years	\$5.00	8,200	\$5.00	9.49 years
	55,280	7.06 years	\$8.95	38,430	\$9.75	8.06 years

Included in options outstanding are 700 options which vest based on performance. It is unlikely that the optionees will generate the required sales volume for any of these options to vest.

The following is a summary of the Company's non-vested stock options at December 31, 2012:

	Non-vested Stock options	Weighted Average Grant Date Fair Value
Non-vested - December 31, 2011	51,867	\$16.50
Granted	0	\$6.00
Vested/Exercised	(11,267 )	\$4.50
Forfeited/Cancelled	(23,750 )	\$8.50
Non-vested - December 31, 2012	16,850	\$6.00
Weighted average remaining period for vesting	1.61 years	

## Note 11 Commitments

The Company subleases approximately 1,000 square feet of office space in San Anselmo, California from a related party on a month-to-month basis for \$1,000 per month. Lease payments for the last six months of the year ending December 31, 2012 have been deferred. The Company's accounts payable balance includes \$6,000 for the deferred rent.

## Note 12 Income Taxes

A reconciliation of the U.S. Federal statutory income tax rate to the effective income tax rate is as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Tax expense at the federal statutory rate	34	%	34	%
State tax expense, net of federal tax effect	5	%	5	%
Permanent timing differences	22	%	(8	%)
Deferred income tax asset valuation allowance	(61	%)	(31	%)
Effective income tax rate	0	%	0	%

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## Propell Technologies Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

## Note 12 Income Taxes (continued)

Significant components of the Company's deferred income tax assets are as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets - net operating losses	\$2,000,000	\$1,830,000
Less deferred income tax assets valuation allowance	(2,000,000)	(1,830,000)
Net deferred income tax assets	\$0	\$0

The valuation allowance for deferred income tax assets as of December 31, 2012 and December 31, 2011 was \$2,000,000 and \$1,830,000, respectively. The net change in the deferred income tax assets valuation allowance was an increase of \$170,000 for Fiscal 2012. The net change in the deferred income tax assets valuation allowance was an increase of \$428,000 for Fiscal 2011.

As of December 31, 2012, the prior three years remain open for examination by the federal or state regulatory agencies for purposes of an audit for tax purposes.

Our net operating loss carry-forwards of \$5,093,000 began to expire in 2029 and continue to expire through 2032. In assessing the realizability of deferred income tax assets, management considers whether or not it is more likely than not that some portion or all deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

The Company's ability to utilize the operating loss carry-forwards may be subject to an annual limitation in future periods pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, if future changes in ownership occur.

## Note 13 Subsequent Events

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

As a result of the Share Exchange Agreement, our principal business became the business of Novas. As the Novas Shareholders obtained the majority of the outstanding shares of the Company through the acquisition, the acquisition

is accounted for as a reverse merger or recapitalization of the Company. As such, Novas is considered the acquirer for accounting purposes.

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Propell Technologies Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 13 Subsequent Events (continued)

On March 6, 2013, John W. Huemoeller II, was appointed as the Chief Executive Officer and President of the Company. In connection with his appointment, Mr. Huemoeller entered into a three-year employment agreement with the Company (the "Agreement") pursuant to which, Mr. Huemoeller will be entitled to receive an annual base salary of \$180,000 and will be entitled to discretionary performance bonus payments. The Agreement provides for a severance payment in the event of employment termination by the Company without Just Cause (as defined in the Agreement), by Mr. Huemoeller for Good Reason (as defined in the Agreement), due to Disability or a Change of Control (each as defined in the Agreement) or death, equal to either (i) one month base salary if at the time of termination the Company has not achieved gross revenue of at least \$1,000,000 or (ii) six (6) months base salary if at the time of termination the Company has achieved gross revenue of at least \$1,000,000. Additionally, Mr. Huemoeller was granted options to purchase 10,000,000 shares of the Company's common stock with an exercise price equal to \$0.25 per share. These options will vest immediately as to 2,500,012 shares of common stock and the balance pro rata, on a monthly basis, over thirty-six (36) months, with accelerated vesting upon a Change of Control, termination by the Company without Just Cause or by Mr. Huemoeller for Good Reason. The Agreement also includes confidentiality obligations and inventions assignments by Mr. Huemoeller.

On March 6, 2013, John Zotos was elected as a director and also appointed to serve as the Corporate Secretary of the Company for an annual salary of \$30,000 and received options exercisable for 1,000,000 shares of common stock of the Company at an exercise price of \$.25 per share, of which 250,012 shares vested immediately and the remaining options are to vest on a monthly basis over a three-year period, subject to acceleration upon certain events.

During the first calendar quarter of 2013, the Company issued (i) an aggregate of 25,000,000 shares of its Common Stock to convertible note holders upon conversion of an aggregate of \$500,000 principal amount of notes held by such noteholders (See also Note 5 – "Notes and Convertible Notes Payable at December 31, 2012" for discussion of the Exchange Notes, (ii) 6,875,000 shares of Common Stock upon conversion of 687,500 shares of Series A-1 Preferred Stock, and (iii) 600,000 shares of its Common Stock as payment for employee and consulting services rendered.

On April 1, 2013, we paid to each of Messrs. Bernstein, Kalow and Fuller their quarterly director fee of a \$3,000 cash payment and issued each of them options exercisable for 18,462 shares of our Common Stock at an exercise price of \$.65 per share.

In accordance with ASC 855-10, the Company has analyzed its operations subsequent to December 31, 2012 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 other than the items discussed above.

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