

Propell Technologies Group, Inc.  
Form 10-Q  
August 14, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10 – Q**

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

**For the quarterly period ended: June 30, 2015**

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

For the transition period from to

**Commission File Number 000-53488**

**PROPELL TECHNOLOGIES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

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

**26-1856569**

**(IRS Employer Identification Number)**

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

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

**(713) 227 - 0480**

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(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 268,058,931 shares of common stock, \$.001 par value per share, as of August 11, 2015.

**PROPELL TECHNOLOGIES GROUP, INC.**

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**Item 1.**

**PROPELL TECHNOLOGIES GROUP, INC.**

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**PROPELL TECHNOLOGIES GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>Unaudited</b>	
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$12,860,203	\$40,844
Accounts receivable	9,391	5,892
Prepaid expenses	89,377	13,031
Total Current Assets	12,958,971	59,767
<b>Non-Current assets</b>		
Plant and Equipment, net	699,044	319,574
Intangibles, net	262,500	297,500
Deposits	2,200	2,200
Total non-current assets	963,744	619,274
<b>Total Assets</b>	<b>\$13,922,715</b>	<b>\$679,041</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$145,389	\$347,437
Accrued liabilities and other payables	253,981	240,426
Notes payable	3,000	117,489
Short-term convertible notes payable, net	-	183,109
Derivative financial liabilities	-	18,455
Total Current Liabilities	402,370	906,916
<b>Long Term Liabilities</b>		
Convertible notes payable, net	-	6,220
Total Long Term Liabilities	-	6,220
<b>Total Liabilities</b>	<b>402,370</b>	<b>913,136</b>
<b>Stockholders' Equity (Deficit)</b>		
Preferred stock, \$0.001 par value, 10,000,000 authorized shares, 0 shares and 4,500,000 shares undesignated.		-
Series A-1 Convertible Preferred stock, \$0.001 par value; 5,000,000 shares designated, 3,137,500 and 3,512,500 shares issued and outstanding, respectively. (liquidation preference \$251,000 and \$281,000, respectively)	3,138	3,513
Series B Convertible, Redeemable Preferred Stock, \$0.001 par value; 500,000 shares designated; 40,000 and 75,000 issued and outstanding (liquidation preference	40	75

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\$480,000 and \$900,000)

Series C Convertible, Preferred Stock, \$0.001 par value; 4,500,000 shares designated; 4,500,000 and 0 issued and outstanding (liquidation preference \$14,750,000 and \$0)	4,500	-
Common stock, \$0.001 par value; 500,000,000 shares authorized, 268,058,931 and 260,169,499 shares issued and outstanding, respectively	268,059	260,169
Additional paid-in capital	25,147,684	9,914,303
Accumulated deficit	(11,903,076)	(10,412,155)
<b>Total Stockholders' Equity (Deficit)</b>	13,520,345	(234,095 )
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	\$ 13,922,715	\$ 679,041

See notes to the unaudited condensed consolidated financial statements

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

	<b>Three months ended, June 30, 2015</b>	<b>Three months ended June 30, 2014</b>	<b>Six months ended, June 30, 2015</b>	<b>Six months ended June 30, 2014</b>
Net Revenues	\$ 8,500	\$ 68,425	\$ 91,000	\$ 85,008
Cost of Goods Sold	42,147	83,682	99,970	102,025
<b>Gross Loss</b>	(33,647 )	(15,257 )	(8,970 )	(17,017 )
Consulting fees	125,280	31,397	219,667	87,225
Stock based compensation	241,286	497,327	482,572	1,122,724
Sales and Marketing	2,094	3,283	2,691	4,083
Professional Fees	226,333	91,381	382,064	135,033
General and administrative	149,191	184,504	290,996	346,390
Depreciation and amortization	36,883	20,758	69,316	25,349
<b>Total Expenses</b>	781,067	828,650	1,447,306	1,720,804
<b>Loss from Operations</b>	(814,714 )	(843,907 )	(1,456,276 )	(1,737,821 )
Amortization of debt discount and finance costs	-	(293,278 )	(53,100 )	(495,682 )
Change in fair value of derivative liabilities	-	(59,133 )	18,455	(397,611 )
	-	(352,411 )	(34,645 )	(893,293 )
<b>Loss before Provision for Income Taxes</b>	(814,714 )	(1,196,318 )	(1,490,921 )	(2,631,114 )
Provision for Income Taxes	-	-	-	-
<b>Net Loss</b>	(814,714 )	(1,196,318 )	(1,490,921 )	(2,631,114 )
Deemed preferred stock dividend	(1,355,085 )	-	(2,456,781 )	(1,604,335 )
Undeclared Series B and Series C Preferred dividends	(62,586 )	-	(145,161 )	-
Net loss to common stockholders	\$ (2,232,385 )	\$ (1,196,318 )	\$ (4,092,863 )	\$ (4,235,449 )
<b>Net Loss Per Share – Basic and Diluted</b>	\$ (0.01 )	\$ (0.01 )	\$ (0.02 )	(0.02 )
<b>Weighted Average Number of Shares Outstanding – Basic and Diluted</b>	256,366,623	231,060,038	254,006,478	218,371,063

See notes to the unaudited condensed consolidated financial statements

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**PROPELL TECHNOLOGIES GROUP, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN****STOCKHOLDERS' EQUITY(DEFICIT)****FOR THE PERIOD JANUARY 1, 2015 TO JUNE 30, 2015**

	Preferred Stock Series A-1		Series B		Series C		Common stock		Additional Paid in Capital	Accumula deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
<b>Balance as of January 1, 2015</b>	3,512,500	\$3,513	75,000	\$75	-	\$-	260,169,499	\$260,169	\$9,914,303	\$(10,412,
Conversion of notes and accrued interest thereon to common stock	-	-	-	-	-	-	639,432	640	12,149	-
Subscription for Series C Convertible Preferred Stock	-	-	-	-	4,500,000	4,500	-	-	14,745,500	-
Conversion of Series A-1 preferred stock to common	(375,000 )	(375 )	-	-	-	-	3,750,000	3,750	(3,375 )	-
Conversion of Series B preferred stock to common	-	-	(35,000)	(35)	-	-	3,500,000	3,500	(3,465 )	-

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Restricted stock awards	-	-	-	-	-	-	-	-	482,572	-
Net loss for the six months ended June 30, 2015	-	-	-	-	-	-	-	-	-	(1,490,920)
<b>Balance as of June 30, 2015</b>	3,137,500	\$3,138	40,000	\$40	4,500,000	\$4,500	268,058,931	\$268,059	\$25,147,684	\$(11,903,000)

See notes to the unaudited condensed consolidated financial statements

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

	<b>Six Months ended, June 30, 2015</b>	<b>Six Months ended, June 30, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the period	\$(1,490,921 )	\$(2,631,114)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	34,316	7,849
Amortization expense	35,000	17,500
Amortization of debt discount	16,232	328,927
Equity based compensation	482,572	1,122,724
Derivative financial liability	(18,455 )	397,611
<b>Changes in Assets and Liabilities</b>		
Accounts receivable	(3,499 )	(15,000 )
Prepaid expenses	(76,346 )	7,031
Accounts payable	(202,048 )	63,237
Accrued liabilities	13,555	118,496
Accrued interest	(11,261 )	36,002
<b>Cash Used in Operating Activities</b>	<b>(1,220,855 )</b>	<b>(546,737 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of plant and equipment	(413,786 )	(69,226 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(413,786 )</b>	<b>(69,226 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds on issuance of Series C Preferred stock	14,750,000	-
Proceeds on issuance of Series B Preferred stock	-	750,000
Proceeds on common stock issued, net of expenses	-	443,685
Proceeds from notes payable and advances	125,000	160,000
Repayment of notes payable and advances	(421,000 )	(401,948 )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>14,454,000</b>	<b>951,737</b>
<b>NET INCREASE IN CASH</b>	<b>12,819,359</b>	<b>335,774</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>40,844</b>	<b>28,423</b>
<b>CASH AT END OF PERIOD</b>	<b>\$12,860,203</b>	<b>\$364,197</b>
<b>CASH PAID FOR INTEREST AND TAXES:</b>		

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Cash paid for income taxes	\$-	\$-
Cash paid for interest	\$48,130	\$130,753

NON-CASH INVESTING AND FINANCING ACTIVITIES

Licenses acquired not yet paid for	\$-	\$350,000
Conversion of debt to equity	\$12,789	\$746,000
Conversion of interest on debt to equity	\$-	\$102,397

See notes to the unaudited condensed consolidated financial statements

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**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1 ORGANIZATION AND DESCRIPTION OF BUSINESS**

**a) Organization**

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

**b) Description of the business**

The Company, through its wholly owned subsidiary, Novas, is an innovative technology and services company whose aim is to radically improve oil production by introducing modern and innovative technologies. Novas has a unique Plasma-Pulse Treatment (“PPT”) technology, which is a new Enhanced Oil Recovery methodology and process that has been developed to be environmentally friendly, mobile, time efficient and extremely cost effective. We filed for patent protection of the PPT technology which is still pending. PPT has the potential to drive new and renewed revenue for energy producers and become a new standard for the entire petroleum industry.

Subsequent to June 30, 2015, the Company’s board of directors and shareholders authorized the Company through its wholly owned subsidiary, Novas, to enter into a joint venture agreement with Technovita Technologies USA, Inc (“Technovita”), through a newly formed Delaware limited liability company, Novas Energy North America, LLC (“NENA”), and a related Sublicense Agreement (the “Novas Sublicense Agreement”) of the plasma pulse technology (the “Technology”) that Novas licenses from Novas Energy Group Limited. Novas retains the right to use the Technology on any oil fields that it may acquire in the future. The Joint Venture will provide the Company with access to Technovita’s experienced team, the ability to build one North American brand, the ability to leverage the strength of the combined entity expanding the Company’s geographic reach beyond the United States and into Canada.

## ACCOUNTING POLICIES AND ESTIMATES

### a) **Basis of Presentation**

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting only of normal recurring adjustments), which we consider necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months and six months ended June 30, 2015 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this quarterly report on Form 10-Q should be read in conjunction with our audited financial statements included in our annual report on Form 10-K as of and for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (the “SEC”).

Significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of our annual report on Form 10-K as of December 31, 2014.

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

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

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

### b) **Principles of Consolidation**

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

Propell Technologies Group, Inc. – Parent Company

Nova Energy USA Inc.

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**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES AND ESTIMATES (continued)**

**c) Contingencies**

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

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

**d) Fair Value of Financial Instruments**

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

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

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

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



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

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

e)

#### **Risks and Uncertainties**

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

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

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES AND ESTIMATES (continued)**

**f) Recent Accounting Pronouncements**

In June 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers*”. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The proposed ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

In April 2015, FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Interest – *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU does not affect the recognition and measurement guidance for debt issuance costs. For public companies, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

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

**g) Reporting by Segment**

No segmental information is presented as the Company has disposed of its historical virtual trading store business which had minimal revenues. The Company is focusing on developing its Novas Energy, Plasma Pulse Technology for the petroleum industry.

Revenues to date are insignificant.

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**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES AND ESTIMATES (continued)**

**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 June 30, 2015 and December 31, 2014, 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 June 30, 2015, the Company had cash balances of \$12,860,203 which exceeded the federally insured limits by \$12,252,500. At December 31, 2014, the balance did not exceed the federally insured limit.

**i) 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 six months ended June 30, 2015 and the year ended December 31, 2014.

**j) Inventory**

The Company had no inventory as of June 30, 2015 or December 31, 2014.

**k) Plant and Equipment**

Plant and equipment is stated at cost, less accumulated depreciation. Plant and equipment with costs greater than \$1,000 are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

<b>Description</b>	<b>Estimated Useful Life</b>
Office equipment and furniture	2 years
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease
Plant and equipment	2 to 3 years
Plasma pulse tools	5 years

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

**i) Intangibles**

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

**i) License Agreements**

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

**ii) Amortization**

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

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES AND ESTIMATES (continued)**

**m) 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.

**n) 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.

**o) 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 unaudited consolidated statement of operations.

**p) 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 June 30, 2015, there have been no interest or penalties incurred on income taxes.

**q) Net Loss per Share**

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

Diluted net loss per share is computed on the basis of the weighted average number of common shares and common share equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted net loss per share are excluded from the calculation (See Note 13, below).

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

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

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

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES AND ESTIMATES (continued)**

**r) Comprehensive income**

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

**s) Related parties**

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

**3 PREPAID EXPENSES**

Prepaid expenses consisted of the following as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Prepaid insurance	\$ 29,628	\$ 8,144
Prepaid professional fees	49,072	4,417
Prepaid tool rental	9,200	-
Other	1,477	470
	\$ 89,377	\$ 13,031

**4 PLANT AND EQUIPMENT**



Plant and Equipment consisted of the following as of June 30, 2015 and December 31, 2014:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Capital work in progress	\$432,268	\$ 18,482
Plasma pulse tool	310,374	310,374
Furniture and equipment	26,643	26,643
Field equipment	19,627	19,627
Computer equipment	1,500	1,500
Total cost	790,412	376,626
Less: accumulated depreciation	(91,368 )	(57,052 )
Plant and equipment, net	\$699,044	\$ 319,574

Depreciation expense was \$34,316 and \$7,849 for the six months ended June 30, 2015 and 2014, respectively.

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**5**

**INTANGIBLES**

**Licenses**

Novas licenses the “Plasma-Pulse Technology” (“the Technology”) from Novas Energy Group Limited, the Licensor, pursuant to the terms of an exclusive perpetual royalty bearing license it entered into in January 2013, which was amended on March, 2014 and further amended on December 23, 2014. The amended license agreement provides Novas with the exclusive right to develop, use, market and commercialize the Technology for itself and/or third parties, sublicense and provide services to third parties related to the Technology in the United States and Mexico including all of its states, districts, territories, possessions and protectorates. The amended license agreement also provides Novas with the right to design and have manufactured the apparatus and to make modifications and improvements to the Technology provided that the Licensor is provided a non-exclusive license to any such improvements and modifications and any patent rights of Novas related to the Technology. The license is limited to the United States and Mexico. It also provides that Novas will pay the Licensor royalties equal to seven and a half percent (7.5%) of Net Service Sales (as defined in the second amendment to the license agreement) and Non-Royalty Sublicensing Consideration (as defined in the second amendment to the license agreement) and provides for a minimum royalty payment of \$500,000 per year from United States operations and \$500,000 per year from Mexican operations; however, no minimum royalty payment is due prior to the three year anniversary of the license agreement for revenue derived from the United States operations and no minimum royalty is due prior to December 31, 2015 for revenue derived from Mexico. Revenue derived from operations in one territory can be used to satisfy obligations for minimum royalty payments in the other territory. All royalty payments made by Novas as well as sublicensing revenue paid by Novas to the Licensor are credited towards the minimum royalty payment. If the minimum royalty is not timely paid, the Licensor has the right to terminate the license with respect to a particular territory and if the minimum royalty payment for both territories is not paid, to terminate the license agreement. Novas was obligated to pay an initial license fee of \$150,000 on or prior to June 30, 2014, this fee was subsequently waived by the Licensor with effect from July 30, 2014, an additional \$200,000 was due to the Licensor on June 30, 2015, this amount, together with the minimum annual royalty amounts due in terms of the licensing agreement are currently under renegotiation with the Licensor, we expect the \$200,000 to be waived and the minimum royalty payments to be amended and deferred. The Licensor is responsible for the cost of filing prosecuting and maintaining the patents and Novas is responsible for costs of obtaining marketing approvals. The Licensor has the right to terminate the license agreement upon Novas’ breach or default. If the Licensor dissolves, becomes insolvent or engages in or is the subject of any other bankruptcy proceeding then the technology and patent rights in the United States shall become our property.

Subsequent to June 30, 2015, the Company was authorized through its wholly owned subsidiary, Novas, to enter into a joint venture agreement with Technovita, through a newly formed Delaware limited liability company, Novas Energy North America, LLC (“NENA”), and a related Sublicense Agreement (the “Novas Sublicense Agreement”) of the plasma pulse technology (the “Technology”) that Novas licenses from the Licensor. Novas retains the right to use the Technology on any oil fields that it may acquire in the future. The Joint Venture will provide the Company with

access to Technovita’s experienced team, the ability to build one North American brand, the ability to leverage the strength of the combined entity, and expanding the Company’s geographic reach beyond the United States and into Canada.

Intangibles consisted of the following as of June 30, 2015 and December 31, 2014, respectively:

	June 30, 2015	December 31, 2014
License agreements	\$350,000	\$350,000
Website development	8,000	8,000
Total cost	358,000	358,000
Less: accumulated amortization	(95,500 )	(60,500 )
Intangibles, net	\$262,500	\$297,500

Amortization expense was \$35,000 and \$17,500 for the six months ended June 30, 2015 and 2014, respectively.

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

	Amount
2015	\$700,000
2016	1,000,000
2017	1,000,000
2018	1,000,000
2019	1,000,000
	\$4,700,000

**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****6 ACCRUED LIABILITIES AND OTHER PAYABLES**

Accrued liabilities consisted of the following as of June 30, 2015 and December 31, 2014, respectively:

	June 30, 2015	December 31, 2014
Payroll liabilities	\$ 39,328	\$ 35,823
Accrued Royalties	14,653	4,603
License fees payable	200,000	200,000
	\$ 253,981	\$ 240,426

**7 NOTES PAYABLE**

Notes payable consisted of the following as of June 30, 2015 and December 31, 2014, respectively:

Description	Interest Rate	Maturity	June 30, 2015	December 31, 2014
<b>Short-Term</b>				
Owl Holdings	-	-	\$ 3,000	\$ 3,000
JAZ-CEH Holdings, LLC	7.5%	October 31, 2015	-	105,000
Accrued interest			-	9,489
Total JAZ-CEH holdings, LLC			-	114,489
<b>Total Notes Payable</b>			<b>\$ 3,000</b>	<b>\$ 117,489</b>

**Owl Holdings**

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

**JAZ-CEH Holdings, LLC**

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In October 2013, Novas Energy USA, Inc, entered into an unsecured promissory note with JAZ-CEH Holdings LLC with a face value of \$105,000. The note bore interest at 7.5% per annum and was due to mature on October 31, 2015.

On February 20, 2015, the note to JAZ-CEH Holdings, LLC, including interest thereon was repaid for a total amount of \$115,590.

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**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8 SHORT-TERM CONVERTIBLE NOTES PAYABLE**

Short Term Convertible Notes payable consisted of the following as of June 30, 2015 and December 31, 2014, respectively:

	<b>Interest Rate</b>	<b>Maturity</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
LG Capital Funding, LLC	8%	October 30, 2015	-	107,000
Unamortized debt discount and interest expense			-	(4,379 )
<b>Total LG Capital Funding, LLC</b>			-	102,621
KBM Worldwide, Inc.	8%	September 12, 2015	-	84,000
Unamortized debt discount and interest expense			-	(3,512 )
<b>Total KBM Worldwide, Inc.</b>			-	80,488
<b>Total Short-Term Convertible Notes Payable</b>			\$ -	\$ 183,109

**LG Capital Funding, LLC**

On October 31, 2014, the Company issued a note in the principal amount of \$107,000 to LG Capital Funding, LLC ("LG") upon receipt of \$100,000 from LG. The terms of the note provided for an original issue discount of 7% amounting to \$7,000 which was added to the face value of the note. The note carried an interest charge of 8% per annum. The note was convertible into common stock at any time, at the holder's option, in whole or in part, at a conversion price equal to 62% of the lowest bid prices in the 10 trading days prior to conversion. The note had a maturity date of October 30, 2015. The holder was not entitled to exercise any conversion right that would result in the holder owning more than 9.9% of the Company's common stock. The Convertible Note was redeemable by the Company within 180 days of the issuance date, after a 3 day notice period, in which notice period the holder could elect to exercise the conversion feature of the note, at a premium over the principal amount due of 10%, plus any interest earned thereon, subject to the holders approval. The conversion price of the note had anti-dilutive provisions which would increase the redemption penalty of the note to 150% of the principal outstanding plus accrued and unpaid interest thereon, or allow conversion immediately prior to the dilutive event taking place.

On February 20, 2015, the unsecured promissory note issued to LG in the principal amount of \$107,000 was repaid for \$125,677, inclusive of interest, original issue discounts and early settlement penalty accrued thereon. The

Company has no further obligations under this note.

**KBM Worldwide, Inc.**

On December 10, 2014, the Company issued an unsecured convertible note to KBM Worldwide, Inc. (“KBM”) with a face value of \$84,000, in exchange for \$80,000 in cash, including an original issue discount of \$4,000. The note was convertible into common stock of the Company and bore interest at the rate of 8% per annum, which interest was payable in cash or common stock, at the election of the holder, and had a maturity date of September 12, 2015. The conversion price, as well as the formula for determining the number of shares needed to repay the note and any interest thereon was 58% of the average of the lowest closing price for any three trading days during the last ten day trading period prior to conversion or payment of interest. The holder could only convert the note following the expiration of 180 days from the date of issuance, December 10, 2014. The holder was not entitled to any conversion right that would result in the holder owning more than 4.99% of the Company’s common stock. This note could be prepaid by the Company from the date of issuance to 180 days after issuance date at a prepayment penalty ranging from 110% to 135% of the balance outstanding, including interest thereon, dependent upon the age of the note.

On February 20, 2015, the unsecured promissory note issued to KBM on December 10, 2014 with a face value of \$84,000 was repaid for \$102,107, inclusive of interest, fees and an early settlement penalty accrued thereon. The Company has no further obligations under this note.

**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9****DERIVATIVE FINANCIAL LIABILITY**

Certain of the short-term convertible notes disclosed in note 8 above, had variable priced conversion rights with no fixed floor price and would re-price dependent on the share price performance over varying periods of time. This gave rise to a derivative financial liability, which was valued at \$224,442 at inception of the convertible notes using a Black-Scholes valuation model. The value of this derivative financial liability is re-assessed at each financial reporting period, with any movement thereon recorded in the statement of operations in the period in which it is incurred or the convertible debt is converted into equity.

Upon repayment or conversion of the outstanding notes, the derivative financial liability is no longer required.

The movement in derivative liabilities is as follows:

	June 30, 2015	December 31, 2014
Opening balance	\$18,455	\$237,799
Derivative financial liability arising on short-term notes with variable conversion prices	-	23,060
Conversion of derivative liability for stock issued at a discount	-	(668,756)
Fair value adjustments to derivative financial liability	(18,455)	426,352
	\$-	\$18,455

The following assumptions were used in the Black-Scholes valuation model:

	<b>Year ended December 31, 2014</b>	
Stock price over the period	\$0.17 – \$0.23	
Risk free interest rate	0.13% to 0.25	%
Expected life of short-term notes payable	9 to 14 months	
Expected volatility	95.24% - 119.45	%
Expected dividend rate	0	%



**10 LONG-TERM CONVERTIBLE NOTES PAYABLE**

Long Term Convertible Notes payable consisted of the following as of June 30, 2015 and December 31, 2014, respectively:

<b>Description</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Notes payable	6%	November 19, 2017	\$ -	\$ 11,250
Accrued interest			-	1,470
Unamortized debt discount			-	(6,500 )
<b>Total long-Term Convertible Notes Payable</b>			<b>\$ -</b>	<b>\$ 6,220</b>

The convertible notes payable consisted of notes issued to a number of private principals (“the Notes”). The Notes bore interest at the rate of 6% per annum and were due on November 19, 2017. The Notes were convertible into common stock at a fixed conversion price of \$0.02 per share.

On February 6, 2015, the remaining convertible note with an aggregate principal amount of \$11,250, inclusive of interest of \$1,539, totaling \$12,789 was converted into 639,432 common shares at a conversion price of \$0.02 per share.

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY (DEFICIT)**

**a) Common Stock**

The Company has authorized 500,000,000 common shares with a par value of \$0.001 each, and issued and outstanding 268,058,931 shares of common stock as of June 30, 2015.

The following common shares were issued by the Company during the six months ended June 30, 2015:

i) an aggregate of 639,432 shares of Common Stock to convertible note holders upon conversion of an aggregate of \$12,789 of long-term convertible notes, inclusive of interest thereon, at a share price of \$0.02 per share;

ii) an aggregate of 3,750,000 shares of Common Stock were issued upon the conversion of 375,000 shares of Series A-1 Preferred stock in terms of a conversion notice received from a Series A-1 stockholder at a conversion factor of 10 Common shares for one Series A-1 Preferred share.

iii) an aggregate of 3,500,000 shares of Common Stock were issued upon the conversion of 35,000 shares of Series B Preferred stock in terms of a conversion notice received from the Series B stockholder at a conversion factor of 100 Common shares for one Series B Preferred share.

Included in the Common stock outstanding are 13,000,000 restricted shares of common stock issued as follows:

(a) An aggregate of 10,000,000 shares of restricted common stock were issued to our Chief Executive Officer in terms of an employment agreement entered into with him. These shares are restricted and vested as to 1,250,000 shares on January 1, 2015 and a further 1,250,000 on April 1, 2015 and a further 1,250,000 shares per quarter thereafter, these shares will be fully vested on September 1, 2016. These restricted shares were valued at the closing price of the common stock on February 4, 2015, the date of approval of the amended and restated employment agreement with our Chief Executive officer. Refer to the related party disclosure in note 14 below.

(b)

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An aggregate of 3,000,000 shares of restricted common stock were issued to our Director, John Zotos, in terms of a consulting agreement entered into with him. These shares are restricted and vested as to 1,000,000 shares on March 31, 2015, a further 1,000,000 vest on September 30, 2015 with the remaining 1,000,000 vesting on March 31, 2016. These restricted shares were valued at the closing price of the common stock on December 5, 2014, the date of approval of the consulting agreement with John Zotos. Refer to the related party disclosure in note 14 below.

The restricted stock outstanding and exercisable at June 30, 2015 is as follows:

Grant date Price	Restricted Stock Outstanding		Restricted Stock Exercisable	
	Number Outstanding	Weighted Average Grant Date Price	Number Vested	Weighted Average Grant Date Price
\$ 0.15	10,000,000	\$	2,500,000	\$
\$ 0.18	3,000,000	\$	1,000,000	\$
	13,000,000	\$ 0.16	3,500,000	\$ 0.16

The Company has recorded an expense of \$482,572 and \$0 for the six months ended June 30, 2015 and 2014, relating to the restricted stock awards and a further \$1,162,000 will be expensed over the vesting period of the stock which takes place over the next fifteen months.

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY (DEFICIT) (continued)**

**b) Preferred Stock**

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

**i) Series A-1 Convertible Preferred Stock**

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

During the six months ended June 30, 2015, holders of 375,000 Series A-1 shares converted their holdings into 3,750,000 shares of the Company's Common Stock at a conversion ratio of 10 common shares to 1 Series A-1 Share.

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

**Conversion**

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

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

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

### **Company Redemption**

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

### **Voting Rights**

Each holder of Series A-1 Shares is entitled to vote on all matters submitted to a vote of the stockholders of the Company and shall be entitled to that number of votes equal to the number of shares of Common Stock into which such holder's shares of Series A-1 Shares could then be converted.

### **Dividends**

Until such time that any dividend is paid to the holders of Common Stock, the holders of Series A-1 Shares shall be entitled to a dividend in an amount per share equal to that which such holders would have been entitled to receive had they converted all of the shares of Series A-1 Shares into Common Stock immediately prior to the payment of such dividend

### **Liquidation Preference**

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

### **No Circumvention**

The approval of the holders of at least 2/3 (66.6%) of the outstanding shares of the Series A-1 Shares, voting together separately as a class, is required for:

- (a) the merger, sale of all, or substantially all of the assets or intellectual property, recapitalization, or reorganization of the Company;
- (b) the authorization or issuance of any equity security having any right, preference or priority superior to or on a parity with the Series A-1 Shares;
- (c) the redemption, repurchase or acquisition of any of the Company's equity securities or the payment of any dividends or distributions thereon;
- (d) any amendment or repeal of the Company's Articles of Incorporation or Bylaws that would have an adverse affect on the rights, preferences or privileges of the Series A-1 Shares; and

- (e) the making of any loan or advance to any person except in the ordinary course of business.

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**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY (DEFICIT) (continued)**

**b) Preferred Stock**

**ii) Series B Convertible Preferred Stock**

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

The Company issued 75,000 Series B shares in March 2014 for gross proceeds of \$750,000.

During the six months ended June 30, 2015, the holder of 35,000 Series B shares converted his holding into 3,500,000 shares of the Company's Common Stock at a conversion ratio of 100 common shares per Series B Share.

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

**Conversion**

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

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

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

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

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

### **Company Redemption**

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

### **Voting Rights**

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

### **Dividends**

The holders of the Series B Shares shall be entitled to receive cumulative dividends at the rate of eight percent per annum of the issue price per share, accrued daily and payable annually in arrears on December 31st of each year (a) ("Dividend Date"). Such dividends shall accrue on any given share from the day of original issuance of such share. Such dividends shall be cumulative, whether or not declared by the Board of Directors, but shall be non-compounding.

- (b) Any dividend payable on a dividend payment date may be paid, at the option of the Company, either (i) in cash or (ii) in shares of common stock at an issue price of \$0.10 per common share.

- (c) Nothing contained herein shall be deemed to establish or require any payment or other charges in excess of the maximum permitted by applicable law.



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

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**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY DEFICIT (continued)**

**b) Preferred Stock (continued)**

**ii) Series B Convertible Preferred Stock (continued)**

**Liquidation Preference**

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

**No Circumvention**

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

We have undeclared dividends on the Series B Preferred stock amounting to \$73,381 as of June 30, 2015. If the dividends are paid in stock, the beneficial conversion feature of these undeclared dividends will be recorded upon the declaration of these dividends. The computation of loss per common share for the three months and six months ended June 30, 2015 takes into account these undeclared dividends.

**iii) Series C Convertible Preferred Stock**

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

On February 19, 2015, the Company entered into a Series C Preferred Stock Purchase Agreement (the “Purchase Agreement”) with Ervington Investment Limited, an entity organized under the laws of the Republic of Cyprus who is wholly owned by Greenleas International Holdings Ltd., which in turn is wholly owned by Harmony Trust Settlement, and closed the first tranche of a private placement offering under the Purchase Agreement, raising \$5,000,000 in gross proceeds from the sale of 1,525,424 shares of our Series C Preferred Stock (“Series C Preferred Stock”) at a purchase price of \$3.277777778 per share. The Company agreed to use the net proceeds of the offering for research and development, commercialization of new products, sales and marketing, repayment of debt, accounts payable and administrative expenses.

In terms of the Purchase Agreement, the Company sold to Ervington an additional 2,974,576 shares of Series C Preferred Stock for additional gross proceeds to us of \$9,750,000 on June 30, 2015. The proceeds of the second closing are to be used by us for the acquisition, enhancement and maintenance of an oil field for deployment of our Plasma Pulse Technology.

We valued the beneficial conversion rights of the first tranche of Series C Convertible Preferred Stock issued on February 19, 2015 to be the right to the additional effective common shares as converted utilizing the opening market price of the common stock of \$0.15 per share. Such computation valued the beneficial conversion rights to be \$1,101,696 for purposes of presenting the net loss to common stock holders. We valued the beneficial conversion rights of the second tranche of Series C Convertible Preferred Stock issued on June 30, 2015, to be the right to the additional effective common shares as converted utilizing the open market price of the common stock of \$.014 per share. Such computation valued the beneficial conversion rights to be \$1,355,085 for purposes of presenting the net loss to common stockholders.

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

In connection with the Purchase Agreement, Ervington also entered into a stock purchase agreement (the “Secondary Purchase Agreement”) with certain of our stockholders (the “Selling Stockholders”), pursuant to which the Selling Stockholders sold to Ervington an aggregate of 7,624,990 shares of our common stock and 2,437,500 shares of our

Series A-1 Preferred Stock (representing 24,375,000 shares of our common stock on an as converted basis) at a purchase price of \$.001 per share. In terms of the Secondary Purchase Agreement the Selling Stockholders also sold to Ervington on July 6, 2015, after the second closing an additional 56,677,477 shares of our common stock and 700,000 shares of our Series A-1 Preferred Stock (representing 7,000,000 shares of our common stock on an as converted basis).

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

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY DEFICIT (continued)**

**b) Preferred Stock (continued)**

**iii) Series C Convertible Preferred Stock (continued)**

In accordance with the terms of the Series C Preferred Stock Certificate of Designations (the "Series C Certificate of Designations"), Ervington appointed Ivan Persiyanov to serve as a director, holding two votes. In addition, James Fuller, Mark Kalow and Dan Steffens resigned from the Board of Directors effective upon the closing. Subsequent to the six months ended June 30, 2015, and in terms of the Series C Certificate of Designation, Ervington appointed Maria Damianou to serve as a director holding one vote.

In addition, as a condition to the consummation of the Purchase Agreement, the Company filed a Certificate of Designations to our Certificate of Incorporation with the Secretary of State of the State of Delaware setting forth the rights, preferences and privileges of the Series C Preferred Stock, our Bylaws were amended and restated and we entered into an Indemnification Agreement with Ivan Persiyanov.

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

**Conversion**

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

**Company Redemption**

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

**Voting Rights**

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

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

### **Dividends**

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

### **Liquidation Preference**

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

### **Anti Dilution**

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

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**11 STOCKHOLDERS' EQUITY DEFICIT (continued)**

**b) Preferred Stock (continued)**

**iii) Series C Convertible Preferred Stock (continued)**

**No Circumvention**

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

- (i) merger, sale of substantially all of our assets or our recapitalization, reorganization, liquidation, dissolution or winding up;
- (ii) redemption or acquisition of shares of our common stock other than in limited circumstances;
- (iii) declaration or payment of a dividend or distribution with respect to our capital stock;
- (iv) making any loan or advance;
- (v) amending our Certificate of Incorporation or Bylaws;
- (vi) authorizing or creating any new class or series of equity security;
- (vii) increasing the number of authorized shares for issuance under any existing stock or option plan;
- (viii) materially changing the nature of the business
- (ix) incurring any indebtedness;

- (x) engaging in or making investments not authorized by our board of directors;
- (xi) acquiring or divesting a material amount of assets;
- (xii) selling, assigning, licensing, pledging or encumbering our material technology or intellectual property;
- (xiii) entering into any corporate strategic relationship involving payment, contribution or assignment by us or to us of any assets.

We have undeclared dividends on the Series C Preferred stock amounting to \$71,781 as of June 30, 2015. The computation of loss per common share for the three and six months ended June 30, 2015 takes into account these undeclared dividends.

**c) Stock Options**

**i) Plan options**

The Company's Board of Directors approved the Company's 2008 Stock Option Plan (the "Stock Plan") for the issuance of up to 5,000,000 shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. After the reverse stock split in August 2012, a total of 100,000 shares were available for grant. Subsequent to the reverse split the Board of Directors approved an increase in the number of awards available for grant to 2,100,000 shares. 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 June 30, 2015 and December 31, 2014, there were 380,950 Plan options issued and outstanding, respectively, under the Stock Option Plan.

The vesting provisions for these stock options are determined by the board of directors at the time of grant, there are no unvested options outstanding as of June 30, 2015.

No options were issued during the six months ended June 30, 2015.



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

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## PROPELL TECHNOLOGIES GROUP, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## STOCKHOLDERS' EQUITY (DEFICIT) (continued)

## c) Stock Options (continued)

A summary of all of our option activity during the period January 1, 2014 to June 30, 2015 is as follows:

	Shares	Exercise price per share	Weighted average exercise price
<b>Outstanding January 1, 2014</b>	<b>11,452,960</b>	<b>\$0.25 to 25.00</b>	<b>\$ 0.30</b>
Granted	-	-	-
Forfeited/Cancelled	(11,072,010)	0.25 to 25.00	0.25
Exercised	-	-	-
<b>Outstanding December 31, 2014</b>	<b>380,950</b>	<b>\$0.51 to 13.50</b>	<b>\$ 0.90</b>
Granted	-	-	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
<b>Outstanding June 30, 2015</b>	<b>380,950</b>	<b>0.51 to 13.50</b>	<b>0.90</b>

Stock options outstanding as of June 30, 2015 and December 31, 2014 as disclosed in the above table, have an intrinsic value of \$0 and \$0, respectively.

The options outstanding and exercisable at June 30, 2015 are as follows:

Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual life in years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual life in years
\$ 13.50	3,480	3.96	\$	3,480	\$	3.96
\$ 12.50	2,000	5.29	\$	2,000	\$	5.29

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\$ 8.50	500	6.01	\$	500	\$	6.01
\$ 5.00	14,800	6.30	\$	14,800	\$	6.30
\$ 0.65	36,924	7.76	\$	36,924	\$	7.76
\$ 0.63	38,096	3.00	\$	38,096	\$	3.00
\$ 0.51	285,150	4.79	\$	285,150	\$	4.79
	380,950	4.95	\$ 0.90	380,950	\$ 0.90	4.95

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.

All options are fully vested and have been fully amortized as of June 30, 2015. The Company has recorded an expense of \$0 and \$980,794 for the six months ended June 30, 2015 and 2014 relating to options issued.

## PROPELL TECHNOLOGIES GROUP, INC.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## STOCKHOLDERS' EQUITY (DEFICIT) (continued)

(d)

## Warrants

A summary of all of our warrant activity during the period January 1, 2014 to June 30, 2015 is as follows:

	Shares	Exercise price per share	Weighted average exercise price
<b>Outstanding January 1, 2014</b>	<b>375,000</b>	<b>\$0.30</b>	<b>\$ 0.30</b>
Granted	5,964,498	0.15 to 0.25	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
<b>Outstanding December 31, 2014</b>	<b>6,339,498</b>	<b>\$0.15 to 0.30</b>	<b>\$ 0.24</b>
Granted	-	-	-
Forfeited/Cancelled	-	-	-
Exercised	-	-	-
<b>Outstanding June 30, 2015</b>	<b>6,339,498</b>	<b>\$0.15 to 0.30</b>	<b>\$ 0.24</b>

The warrants outstanding and exercisable at June 30, 2015 are as follows:

Exercise Price	Warrants Outstanding			Warrants Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual life in years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual life in years
\$ 0.30	375,000	3.34	\$ 0.30	375,000	\$ 0.30	3.34
\$ 0.25	1,751,667	3.99	\$ 0.25	1,751,667	\$ 0.25	3.99
\$ 0.15	525,500	3.99	\$ 0.15	525,500	\$ 0.15	3.99
\$ 0.25	1,508,333	4.09	\$ 0.25	1,508,333	\$ 0.25	4.09
\$ 0.15	577,499	4.11	\$ 0.15	577,499	\$ 0.15	4.11
\$ 0.25	968,166	4.11	\$ 0.25	968,166	\$ 0.25	4.11
\$ 0.25	633,333	4.16	\$ 0.25	633,333	\$ 0.25	4.16

6,339,498    4.02        \$ 0.24        6,339,498    \$ 0.24        4.02

The warrants outstanding have an intrinsic value of \$0 as of June 30, 2015 and 2014, respectively.

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**EQUITY BASED COMPENSATION**

Equity based compensation is made up of the following:

	Six months ended June 30, 2015	Six months ended June 30, 2014
Stock option compensation charge	\$ -	\$980,794
Restricted stock award compensation charge	482,572	-
Stock issued for services rendered	-	141,930
	\$ 482,572	\$ 1,122,724

**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****13****NET LOSS PER SHARE**

Basic loss per share is based on the weighted-average number of common shares outstanding during each period. Diluted loss per share is based on basic shares as determined above plus common stock equivalents, including convertible preferred shares and convertible notes as well as the incremental shares that would be issued upon the assumed exercise of in-the-money stock options using the treasury stock method. The computation of diluted net loss per share does not assume the issuance of common shares that have an anti-dilutive effect on net loss per share. For the six months ended June 30, 2015 and 2014, all stock options, unvested restricted stock awards, warrants, convertible preferred stock and convertible notes were excluded from the computation of diluted net loss per share. Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their affect would have been anti-dilutive are as follows:

	Six Months ended June 30, 2015 (Shares)	Six months ended June 30, 2014 (Shares)
Options to purchase shares of common stock	380,950	11,452,960
Restricted stock awards – unvested	9,500,000	-
Warrants to purchase shares of common stock	6,339,498	2,652,167
Series A-1 convertible preferred shares	31,375,000	38,875,000
Series B convertible preferred shares	4,000,000	7,500,000
Convertible long term notes	-	1,968,750
Convertible short term notes*	-	-
	51,595,448	62,448,877

\* In the prior year convertible short term notes have variable conversion pricing dependent upon share prices prior to conversion

**14****RELATED PARTY TRANSACTIONS**

On February 4, 2015, we entered into an Amended and Restated Employment Agreement (the “Employment Agreement”) with John Huemoeller II, that superseded the Company’s prior Employment Agreement with Mr.

Huemoeller that was previously entered into on December 5, 2014 (the “Prior Agreement”).

Under the Employment Agreement, which has a stated term of three (3) years, for his continued service as the Chief Executive Officer and President of the Company, Mr. Huemoeller will continue to receive the same annual base salary of \$180,000 provided for under the Prior Agreement and will be entitled to bonuses at the discretion of the Company based on performance. The new Employment Agreement restated a previous grant to Mr. Huemoeller of 10,000,000 shares of the Company’s restricted stock, which vest on the following schedule: 1,250,000 shares vested on January 1, 2015, 1,250,000 vested on April 1, 2015 and thereafter 1,250,000 will vest on each quarter anniversary commencing July 1, 2015 for six (6) quarters. The restricted stock grant was in lieu of the options that had previously been granted to Mr. Huemoeller, which options were canceled on December 5, 2014. The Employment Agreement also provides that Mr. Huemoeller will receive a restricted stock grant of 750,000 shares of stock on an annual basis commencing January 1, 2016, which will vest upon issuance. In the event of a Change of Control (as defined in the Employment Agreement), termination without Cause (as defined in the Employment Agreement), termination due to disability (as defined in the Employment Agreement), death or termination by Mr. Huemoeller for Good Reason (as defined in the Employment Agreement), Mr. Huemoeller will receive: (i) a severance payment equal to two (2) months base salary together with payment of medical insurance or COBRA payments for two (2) months after termination; and (ii) all restricted stock grants that have been issued to Mr. Huemoeller will immediately vest. If Mr. Huemoeller terminates his employment at any time prior to January 1, 2016 Without Good Reason (as defined in the Employment Agreement) or is terminated for Cause (as defined in the Employment Agreement) then 5,000,000 of any restricted stock grants will immediately vest. The Employment Agreement also includes customary confidentiality obligations and inventions assignments by Mr. Huemoeller.

On December 5, 2014, the Company entered into a consulting agreement with John Zotos (“Zotos”), our director for a two year period. In terms of the agreement, Zotos will provide consulting services to the Company for a consideration of \$5,000 per month and the grant of 3,000,000 restricted shares of which 1,000,000 vested on March 31, 2015 and the remaining 2,000,000 will vest equally on September 30, 2015 and March 31, 2016. Early termination of the agreement by either party will result in immediate vesting of the remaining unvested shares. The Company will also reimburse the consultant for all out of pocket expenses incurred whilst performing his duties. The consulting agreement also includes customary confidentiality obligations and invention assignments by Mr. Zotos.

**PROPELL TECHNOLOGIES GROUP, INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**15 COMMITMENTS AND CONTINGENCIES**

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

The Company leases approximately 2,300 square feet of office space in Houston, Texas, the original term of the lease agreement terminated on January 31, 2014 with automatic renewals for six month periods unless 60 days written notice is given prior to renewal. The rental is \$2,200 per month.

The future minimum lease installments under this agreement as of June 30, 2015 for the period July 1, 2015 to July 31, 2015 (the automatic renewal period) is \$2,200.

The Company leases a loft space in Houston, Texas from a related party in terms of a lease agreement entered into on September 1, 2014 and expiring on August 31, 2015. The lease provides for automatic renewal on a month to month basis unless 60 days written notice is given to terminate the lease. The monthly rental is \$3,220 per month.

The future minimum lease installments under this agreement as of June 30, 2015 for the period July 1, 2015 to August 31, 2015 is \$6,440.

The future minimum operating lease commitments are as follows:

	Amount
2015	\$ 8,640



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

	Amount
2015	\$700,000
2016	1,000,000
2017	1,000,000
2018	1,000,000
2019	1,000,000
	\$4,700,000

We are currently in negotiation with the Licensor to waive the \$200,000 license fee which was due on June 30, 2015, we are also renegotiating the terms of the minimum royalty payments due and expect these payments to be deferred and amended.

## **16SUBSEQUENT EVENTS**

On July 13, 2015, the Company's board of directors and holders of a majority of the Company's voting securities approved the Company's wholly owned subsidiary, Novas Energy USA, Inc to enter into a joint venture with Technovita Technologies USA, Inc., through a newly formed Delaware limited liability company, Novas Energy North America, LLC ("NENA"), and a related Sublicense Agreement (the "Novas Sublicense Agreement") to NENA of the Technology that Novas licenses from the Licensor. This Joint Venture and the sublicense agreement will become effective twenty days after the mailing of the Company's information statement on Schedule 14C which was filed with the Securities and Exchange Commission on July 28, 2015.

In accordance with ASC 855-10, the Company has analyzed its operations subsequent to June 30, 2015 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.

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

*The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our consolidated financial statements and the notes presented herein and the risk factors and the financial statements and the other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2014. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed herein and any other periodic reports filed and to be filed with the SEC.*

### **Cautionary Note Regarding Forward-Looking Statements**

This report and other documents that we file with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. Statements that are not historical facts are forward-looking statements. Words such as "expect," "outlook," "forecast," "would," "could," "should," "project," "intend," "plan," "continue," "sustain", "on track", "estimate," "anticipate," "may," "assume," and variations of such words and similar expressions are often used to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those described in this Quarterly Report on Form 10-Q and other reports that we file or furnish with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements after the date they are made, whether as a result of new information, future events, changes in assumptions or otherwise.

### **Overview and Financial Condition**

#### ***Our Company***

We are a Delaware corporation with principal offices located at 1701 Commerce Street, Houston, Texas 77002. We are engaged in the commercial application of a proprietary Plasma Pulse Technology to enhance the recovery of oil in the United States and Mexico. We began introducing the Plasma Pulse Technology in the United States on a limited basis in March 2013. Prior to this, all of our revenue had been derived from our e-commerce and other lines of

business, which we discontinued, effective December 31, 2014, to enable us to focus all of our attention to our oil recovery business.

Since February 4, 2013, following the closing of the Share Exchange Agreement with the shareholders of Novas, under which we acquired all of the outstanding equity securities of Novas in exchange for 100,000,000 shares of our common stock, our primary focus has been to the further development of our licensed oil recovery technology. The Plasma Pulse Technology used by Novas is based on an exclusive, perpetual royalty-bearing license to engage in the commercial application of the proprietary Plasma Pulse Technology entered into on January 30, 2013, as amended in March 2014 and December 23, 2014 with Novas Energy Group Limited, as licensor which granted Novas the right to use the Plasma Pulse Technology in the United States to enhance oil production. The License Agreement provides Novas with the right to practice the licensed process and to utilize the Plasma Pulse Technology to provide services to third parties and for ourselves as well, and to sublicense the Plasma Pulse Technology in the United States. In March 2014, the License Agreement was amended to, among other things, increase the territory in which Novas can practice the licensed process and utilize the Plasma Pulse Technology to include Mexico. Although new to the United States and Mexico, the Plasma Pulse Technology has been successfully utilized outside of the United States and Mexico for several years. The Licensor filed for patent protection of the Plasma Pulse Technology in the United States, this patent is still pending. The process utilizes a down-hole tool that is lowered into vertical wellbores to the perforated oil producing zone. When initiated, the tool delivers metallic plasma-generated, directed, non-linear, wide-band elastic oscillations at resonance frequencies to enhance oil production using the tool developed by the Licensor and enhanced by Novas. The Plasma Pulse Technology is suitable for oil wells as deep as 12,000 feet. By optimizing production efficiency combined with the resulting increased oil production we expect to extend the economic life of mature oil fields and to recover previously unrecoverable oil efficiently.

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

Subsequent to June 30, 2015, the Company's board of directors and shareholders authorized the Company through its wholly owned subsidiary, Novas, to enter into a joint venture agreement with Technovita Technologies USA, Inc ("Technovita"), through a newly formed Delaware limited liability company, Novas Energy North America, LLC ("NENA"), and a related Sublicense Agreement (the "Novas Sublicense Agreement") of the plasma pulse technology (the "Technology") that Novas licenses from the Licensor. Novas retains the right to use the Technology on any oil fields that it may acquire in the future. The Joint Venture will provide the Company with access to Technovita's experienced team, the ability to build one North American brand, the ability to leverage the strength of the combined entity, and expanding the Company's geographic reach beyond the United States and into Canada.

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 \$11,903,076 through June 30, 2015 and there can be no assurance that we will be able to achieve

profitability.

Our fiscal year end is December 31.

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## ***History***

Propell Technologies Group, Inc. (f/k/a 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 we issued an aggregate of 108,000 shares to the former shareholders of CMI. On May 6, 2008, we 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 41,987 shares of our Common Stock to the members of Mountain Capital, LLC and a total of 2,721 shares of our Common Stock to the members of AUL (the shares referenced above are in pre-split amounts, that is prior to our 50-to-1 reverse split in August 2012). In 2010 AUL and AMS were dissolved. In September 2010, CMI’s assets were foreclosed upon by its largest creditor and these assets were liquidated and effective December 31, 2013, we disposed of our interest in CMI for nominal consideration. On July 6, 2012, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 5,000,000 Preferred shares as Series A-1 Preferred Stock. On August 17, 2012, we filed an amendment to our Certificate of Incorporation, which increased the number of shares of our authorized Common Stock to 500,000,000 shares, effectuated a 50:1 reverse split of the number of shares of our outstanding common stock and changed our name to Propell Technologies Group, Inc. On February 4, 2013, we acquired all of the outstanding shares of Novas and Novas became our wholly owned subsidiary. Effective December 31, 2013, we disposed of our ecommerce line of business. On March 14, 2014, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 500,000 preferred shares as Series B Preferred Stock. On February 17, 2015, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 4,500,000 preferred shares as Series C Preferred Stock. On February 19, 2015, we entered into a Purchase Agreement with Ervington Investments Limited, an entity organized under the laws of the Republic of Cyprus who is wholly owned by Greenleas International Holdings Ltd., which in turn is wholly owned by Harmony Trust Settlement, and closed the first tranche of a private placement offering under the Purchase Agreement, raising \$5,000,000 in gross proceeds from the sale of 1,525,424 shares of our Series C Preferred Stock at a purchase price of \$3.277777778 per share. We have agreed to use the net proceeds of the offering for research and development, commercialization of new products, sales and marketing, repayment of debt, accounts payable and administrative expenses. On June 30, 2015, Ervington Investments closed the second tranche of a private placement offering under the purchase agreement raising an additional \$9,750,000 in gross proceeds from the sale of 2,974,576 shares of our Series C Preferred Stock at a purchase price of \$3.277777778. we have agreed to use the proceeds for the acquisition, enhancement and maintenance of an oil field for deployment of our Plasma Pulse Technology.

Until recently, we offered our services on a fee based model and charge a service fee for use of the Plasma Pulse Technology.

In addition, we may acquire wells and use the Plasma Pulse Technology on our acquired wells to increase their production.

## ***Management Discussion and Analysis of financial condition***

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements as of June 30, 2015 and June 30, 2014, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

### **Results of Operations for the three months ended June 30, 2015 and June 30, 2014**

#### **Net revenues**

Net revenues were \$8,500 and \$68,425 for the three months ended June 30, 2015 and 2014 respectively, a decrease of \$59,925 or 87.6%. Revenue in the current quarter consists of revenue earned on the treatment of one well in the USA. The revenue from the prior year represented amortization of a once off licensing fee and initial set up revenues for a well treatment project undertaken in Mexico, which has subsequently been terminated and renegotiated with another vendor. Revenue has been sporadic as the business is being developed and comparison to prior periods during this development stage has limited value to business analysis. Subsequent to June 30, 2015, the Company entered into a joint venture agreement with Technovita Technologies USA, Inc. ("Technovita"), through a newly formed company, Novas Energy North America, LLC. Technovita has significant commercial experience which will assist in developing the US and Canadian market for the benefit of the Company.

### **Cost of goods sold**

Cost of goods sold was \$42,147 and \$83,682 for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$41,535 or 49.6%. Cost of goods sold during the current year, primarily represents engineering services provided by third party contractors which is contracted on a monthly basis and is not correlated to the revenues earned, while cost of goods sold in the prior year represents non-recoverable set up fees including engineering costs and travel costs incurred on the Mexico project, offset by cost recovery fees charged to our customer.

### **Gross loss**

Gross loss was \$(33,647) and \$(15,257) for the three months ended June 30, 2015 and 2014, respectively, an increase of \$18,390. This increase is due primarily to engineering services provided by as third party contractor and is not correlated to revenues earned.

### **Total expenses**

Total expenses were \$781,067 and \$828,650 for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$47,583 or 5.7%. Total expenses consisted primarily of the following:

Stock based compensation expense was \$241,286 and \$497,327 for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$256,041. The current year charge includes a charge of \$241,286 for restricted stock issued to our Chief Executive Officer, John Huemoeller and one of our directors, John Zotos, which vest over the next fifteen months, the prior year charge included a charge of \$490,397 which represents a charge for the amortization of stock option compensation expense for options issued to John Zotos, our director and John Huemoeller, our CEO, which options were cancelled and replaced with restricted stock in December 2014. General and administrative expenditure was \$149,191 and \$184,504 for the three months ended June 30, 2015 and 2014, respectively, a decrease of \$35,313 or 19.1%. This decrease is due to a reduction in travel expenditure and investor and public relations expenditure during the current year.

Professional fees were \$226,333 and \$91,381 for the three months ended June 30, 2015 and 2014, respectively, an increase of \$134,952 or 147.7%. The increase is primarily due to an increase in; i) legal expenditure which increased by \$102,957 over the prior year due to additional time spent on the joint venture arrangements and the second tranche investment into the Company by Ervington Investments and legal fees incurred on patents for our improvements to the down-hole tool of \$20,379.

Consulting fees were \$125,280 and \$31,397 for the three months ended June 30, 2015 and 2014, respectively, an increase of \$93,883 or 299.0%, primarily due to consulting fees due to a third party of \$73,030 for recruiting services while we attempt to increase the depth of our management skills in the Company and for the newly formed joint venture and fees payable to an individual of \$15,000 assist with sales, field work and administration before the joint venture comes into operation.

Depreciation and amortization expense was \$36,883 and \$20,758 for the three months ended June 30, 2015 and 2014, respectively, an increase of \$16,125. This is primarily due to additional depreciation expense incurred on the capitalization and depreciation on our US developed down-hole tool.

### **Amortization of debt discount and finance costs**

Amortization of debt discount and finance costs was \$0 and \$293,278 for the three months ended June 30, 2015 and 2014, respectively. All debt was repaid during the first quarter of the current year. In the prior year, the amortization of debt and finance costs, included the accelerated amortization of debt discount on notes that were repaid or converted into equity and normal amortization on the remaining notes, totaling \$269,196 and interest accrued on our notes outstanding of \$24,082.

### **Change in fair value of derivatives**

The change in fair value of derivative liabilities was \$0 and \$59,133 for the three months ended June 30, 2015 and 2014 respectively, a decrease of \$59,133 or 100.0%. In the prior year the derivative liability movement reflected a charge of \$108,071 relating to the mark-to-market of equities issued to short-term note holders who converted their debt to equity at deeply discounted prices based on variable priced conversion rates which was offset by a mark-to-market credit of \$48,938 on the remaining short-term convertible notes.

### **Net loss**

We incurred a net loss of \$(814,714) and \$(1,196,318) for the three months ended June 30, 2015 and 2014, a decrease of \$381,604 or 31.9%, respectively and which consists of the various revenue and expense items discussed above.

A deemed preferred stock dividend of \$1,355,085 and \$0 has been disclosed in the statement of operations for the three months ended June 30, 2015 and 2014, respectively. This amount represents the in-the-money value of the conversion feature of the Series C Preferred Stock as of the date of issue. These shares of Series C Preferred Stock is convertible into common stock at an exercise price of \$0.12291665 per share.

A deemed dividend of \$62,586 has been disclosed in the statement of operations for the three months ended June 30, 2015 and 2014, respectively. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders for the three months ended June 30, 2015.

### **Results of Operations for the six months ended June 30, 2015 and June 30, 2014**

#### **Net revenues**

Net revenues were \$91,000 and \$85,008 for the six months ended September 30, 2015 and 2014 respectively, an increase of \$5,992 or 7.1%. Revenue during the six months ended June 30, 2015 consists of revenue earned on the treatment of several wells in the USA. The revenue from the prior year represented amortization of a once off licensing fee and initial set up revenues for a well treatment project undertaken in Mexico of \$40,000, which has subsequently been terminated and renegotiated with another vendor and revenue from the treatment of several wells in



the USA amounting to \$45,000. Revenue has been sporadic as the business is being developed and comparison to prior periods during this development stage has limited value to business analysis. Subsequent to June 30, 2015, the Company's board of directors and shareholders controlling a majority of the voting power of the Company authorized the Company's subsidiary, Novas, to enter into a joint venture agreement with Technovita Technologies USA, Inc. ("Technovita"), through a newly formed company, Novas Energy North America, LLC. Technovita has significant commercial experience which will assist in developing the US and Canadian market for the benefit of the Company.

### **Cost of goods sold**

Cost of goods sold was \$99,970 and \$102,025 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$2,055 or 2.0%. Cost of goods sold during the current year, primarily represents engineering services provided by third party contractors which is contracted on a monthly basis and is not correlated to the revenues earned, while cost of goods sold in the prior year represents non-recoverable set up fees including engineering costs and travel costs incurred on the Mexico project, offset by cost recovery fees charged to our customer.

### **Gross loss**

Gross loss was \$(8,970) and \$(17,017) for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$8,047. The decrease is primarily due to initial set up costs and travel expenses incurred in the prior year on the Mexico project

### **Total expenses**

Total expenses were \$1,447,306 and \$1,720,804 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$273,498 or 15.9%. Total expenses consisted primarily of the following:

Stock based compensation expense was \$482,572 and \$1,122,724 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$640,152. The current year charge includes a charge of \$482,572 for restricted stock issued to our Chief Executive Officer, John Huemoeller and one of our directors, John Zotos, which vest over the next fifteen months, the prior year charge included a charge of \$141,930 for shares issued to certain consultants and advisors and a charge of \$980,794 which represents a charge for the amortization of stock option compensation expense for options issued to John Zotos, our director and John Huemoeller, our CEO, which options were cancelled and replaced with restricted stock in December 2014.

General and administrative expenditure was \$290,996 and \$346,390 for the six months ended June 30, 2015 and 2014, respectively, a decrease of \$55,394 or 16.0%. This decrease is due to a reduction in travel expenditure, investor relations expenses and directors fees during the current year.

Professional fees were \$382,064 and \$135,033 for the six months ended June 30, 2015 and 2014, respectively, an increase of \$247,031 or 182.9%. The increase is primarily due to an increase in; i) legal expenditure which increased by \$182,762 over the prior year due to additional time spent on the joint venture arrangements and the second tranche investment into the Company by Ervington Investments and legal fees incurred on patents for our improvements to the down-hole tool of \$35,522 and an increase in corporate secretarial fees of \$15,000 which was introduced in April 2014.

Consulting fees were \$219,667 and \$87,225 for the six months ended June 30, 2015 and 2014, respectively, an increase of \$132,442 or 151.8%, primarily due to consulting fees due to a third party of \$110,090 for recruiting services while we attempt to increase the depth of our management skills in the Company and for the newly formed joint venture and fees payable to an individual of \$15,000 assist with sales, field work and administration before the joint venture comes into operation.

Depreciation and amortization expense was \$69,316 and \$25,349 for the six months ended June 30, 2015 and 2014, respectively, an increase of \$43,967, this is primarily due to the increase in depreciation expense of \$26,466 primarily

due to the capitalization and depreciation on our US developed down-hole tool and an increase in the amortization of our licensed technology of \$17,500 which amortization only commenced in April 2014.

#### **Amortization of debt discount and finance costs**

Amortization of debt discount and finance costs was \$53,100 and \$495,682 for the six months ended June 30, 2015 and 2014, respectively. All debt was repaid during the first quarter of the current year. In the prior year, the amortization of debt and finance costs, included the accelerated amortization of debt discount on notes that were repaid or converted into equity and normal amortization on the remaining notes, totaling \$328,927 and interest accrued on our notes outstanding of \$166,755.

#### **Change in fair value of derivatives**

The change in fair value of derivative liabilities was \$18,455 and \$(397,611) for the six months ended June 30, 2015 and 2014 respectively, a decrease of \$416,066. In the prior year the derivative liability movement reflected a charge of \$619,307 relating to the mark-to-market of equities issued to short-term note holders who converted their debt to equity at deeply discounted prices based on variable priced conversion rates which was offset by a mark-to-market credit of \$227,499 on the remaining short-term convertible notes and a new derivative liability of \$5,803 on short term debt issued in the prior year.

#### **Net loss**

We incurred a net loss of \$(1,490,921) and \$(2,631,114) for the six months ended June 30, 2015 and 2014, a decrease of \$1,140,193 or 43.3%, respectively and which consists of the various revenue and expense items discussed above.

A deemed preferred stock dividend of \$2,456,781 and \$1,604,335 has been disclosed in the statement of operations for the six months ended June 30, 2015 and 2014, respectively. This amount represents the in-the-money value of the conversion feature of the Series C and the Series B Preferred Stock as of the date of issue. These shares of Series C and Series B Preferred Stock are convertible into common stock at an exercise price of \$0.12291665 and \$0.10 per share, respectively.

A deemed dividend of \$145,161 has been disclosed in the statement of operations for the six months ended June 30, 2015 and 2014, respectively. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders for the six months ended June 30, 2015.

## Liquidity and Capital Resources.

To date, our primary sources of cash have been funds raised from the sale of our securities and the issuance of convertible and non-convertible debt. We raised gross proceeds of \$14,750,000 from the sale of our Series C Preferred Stock in February 2015 and June 2015. In addition, we also raised temporary debt in the aggregate principal amount of \$125,000 from the sale of our debt securities, this debt together with all other outstanding interest bearing debt in the aggregate principal amount of \$296,000, including interest and early settlement penalty interest thereon was repaid on February 20, 2015 out of the proceeds raised from the sale of the Series C Preferred Stock.

We have spent \$413,786 on plant and equipment for the six months ended June 30, 2015, primarily on improvements to the down-hole tool and the development of seven new down-hole tools suitable for the smaller cased American wells.

We have incurred an accumulated deficit of \$(11,903,076) through June 30, 2015 and incurred negative cash flow from operations of \$1,220,855 for the six months ended June 30, 2015. We have spent, and need to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development effort.

Our primary commitments include the minimum commitments under the license agreements and our commitment to invest \$1,200,000 into the joint venture in quarterly installments, based on their cash flow needs, commencing during July 2015.

Our minimum commitments under the License Agreement for the next five years is summarized as follows:

	Amount
2015	\$700,000
2016	1,000,000
2017	1,000,000
2018	1,000,000
2019	1,000,000
	\$4,700,000

Our projected funding commitments of the joint venture is as follows:

	<b>Amount</b>
July 2015	\$ 300,000
September 2015	300,000
December 2015	300,000
March 2016	300,000
	<b>\$1,200,000</b>

As of June 30, 2015 we had notes, in the principal amount outstanding of \$3,000, this note is non-interest bearing and has no fixed repayment terms.

### **Off Balance Sheet Arrangements**

There are no off balance sheet arrangements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risks**

None.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of disclosure controls and procedures**

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”), who also serves as our principal financial and accounting officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO who also serves as our principal financial and accounting officer concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company’s disclosure controls and procedures as of June 30, 2015 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO, as appropriate, to allow timely decisions regarding required disclosure. The Company intends to retain additional individuals to remedy the ineffective controls. We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

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

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 1A. Risk Factors**

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

#### **Risks Relating to Our Company**

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

We have recently engaged in a new business line involving our Plasma Pulse Technology. There is a risk that we will be unable to successfully operate this new line of business or be able to successfully integrate it with our current management and structure. Our estimates of capital, personnel and equipment required for our new line of business are based on the experience of management and businesses they are familiar with. Our management has limited direct experience in our new lines of business. We are subject to the risks such as our ability to implement our business plan, market acceptance of our proposed business and services, under-capitalization, cash shortages, limitations with respect to personnel, financing and other resources, competition from better funded and experienced companies, and uncertainty of our ability to generate revenues. There is no assurance that our activities will be successful or will result in any revenues or profit, and the likelihood of our success must be considered in light of the stage of our development. Even if we generate revenue, there can be no assurance that we will be profitable. In addition, no assurance can be given that we will be able to consummate our business strategy and plans, as described herein, or that financial, technological, market, or other limitations may force us to modify, alter, significantly delay, or significantly impede the implementation of such plans. We have insufficient results for investors to use to identify historical trends or even to make quarter to quarter comparisons of our operating results. You should consider our prospects in light of the risk, expenses and difficulties we will encounter as an early stage company. Our revenue and income potential is unproven and our business model is continually evolving. We are subject to the risks inherent to the operation of a new business enterprise, and cannot assure you that we will be able to successfully address these risks.

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

We currently have generated limited revenues from the use of our Plasma Pulse Technology. The majority of the wells that were treated were treated as sample wells to demonstrate the ability of the Plasma Pulse Technology at no cost to the well owner. Therefore there can be no assurance that well owners will determine that the price to be paid by our customers for our services, whether in the form of a cash payment or profit sharing arrangement, will be deemed to be reasonable and that customers will be willing to pay such prices.

***We may not be profitable.***

We expect to incur operating losses for the foreseeable future. For the six months ended June 30, 2015 and the year ended December 31, 2014, we had net revenues of \$91,000 and \$190,035, respectively, from our oil recovery business. For the six months ended June 30, 2015 and the year ended December 31, 2014, we sustained a net loss of \$1,490,921 and \$5,018,483, respectively. To date, we have not generated significant revenue from our Plasma Pulse Technology. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business.

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

To date, we have not generated enough revenue from operations to pay all of our expenses. During the six months ended June 30, 2015 and the year ended December 31, 2014 we raised a total of \$14,750,000 from our private placement of Series C Preferred stock to Ervington consummated during February 2015 and \$1,103,000 during the period June to August of 2014 and an additional \$750,000 from the sale of our Series B Preferred Stock in March 2014. We have used the funds raised in our financings for working capital purposes and intend to acquire an oil well with the funds that were recently raised. However there can be no assurance that we will be able to achieve our goals with the cash on hand or the cash generated from operations..

***We may not be able to service customers with the five tools that we currently have.***

Our ability to continue to service customers and expand our business is dependent upon us acquiring additional apparatuses to be utilized with the Plasma Pulse Technology. We currently have four down-hole tools that can treat 5 ½ inch cased wells and one new tool that treats 4 ½-inch cased wells and horizontal wells. If the tools should require repair we may be unable to service customers. In addition, with only five tools, we can only treat a limited number of



wells at a time and are unable to treat wells on days when the tools are in transit from one customer's well to another well. In addition, only one of the tools can treat the 4 ½-inch cased wells and horizontal wells.

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

To date, Technovita has not treated any oil wells with the Plasma Pulse Technology and therefore there is no guarantee that the Technovita team will be successful in meeting its milestones. Due to limited data about well treatment it is difficult to assess the revenue to be derived from the Canadian wells, which may not perform as expected and may contribute less than 40% to the revenue of the planned joint venture. Completion of the joint venture will mean that we will only have a 60% interest in revenue derived from treatment of U.S. wells instead of our current 100% interest. Although Novas has the right to terminate the joint venture if certain milestones are not met, if the milestones are met there can be no assurance that the revenue derived from U.S. wells will not exceed 60% of the revenue of the joint venture. We have not received a valuation or fairness opinion regarding the planned joint venture and its percent ownership in the joint venture. We are required to contribute \$1,200,000 to the joint venture that may not be recovered in the event that the joint venture dissolves. In addition, the joint venture will bear the additional costs associated with the additional Technovita management team.

***We may not be able to retrofit the down-hole tool to fit a large number of well holes in the United States.***

Four of our tools only work in vertical wells with a minimum of 5 ½-inch casings and not in horizontal wells. We recently developed a tool to treat 4 ½-inch cased wells and also horizontal wells. However, there can be no assurance that such tool will be effective in treating wells in the United States and Mexico.

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

The Plasma Pulse Technology that we license has been utilized in the United States on a limited basis. We have not yet generated significant revenue from the Plasma Pulse Technology that we license and there can be no assurance that the Plasma Pulse Technology will be accepted in the market or that our commercialization efforts or those of the joint venture will be successful.

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

To date, we have applied our licensed Plasma Pulse Technology to treat over forty wells, which treatments were performed fairly recently, and we do not have long terms results on the wells that were treated. Of such wells, we have seen improvement results in many wells. Favorable results in our early treatments may not last and may not be

repeated in later treatments of other wells. Success in early treatments does not ensure that wells treated at a later date will be successful. Additionally, collecting treatment data results is not always possible as operators that pay for the service are not required to deliver data or we are required to work under non-disclosure agreements.

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

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

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

The License Agreement with Novas Energy Group Limited requires us to pay aggregate minimum royalty payments of \$1,000,000 per year; however, no minimum royalty payment is due prior to (i) December 31, 2015 with respect to Mexican operations and (ii) the three year anniversary of the license agreement with respect to the United States operations. If the minimum royalty is not timely paid, the Licensor has the right to terminate the license agreement with respect to a certain territory under certain circumstances and in certain other circumstances has the right to terminate the entire agreement. In addition, we are currently renegotiating the waiver of the \$200,000 due with respect to our rights in Mexico and we are simultaneously renegotiating the terms of the minimum annual royalty requirements. To date, we have not generated enough revenue to pay minimum royalty payments. No assurance can be given that we or the joint venture will generate sufficient revenue to make these minimum royalty payments. Any failure to make the payments would permit the Licensor to terminate the license. If we were to lose or otherwise be unable to maintain this license, it would halt our ability to market our technology, which would have an immediate material adverse effect on our business, operating results and financial condition.

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

Ervington currently beneficially owns approximately 50.9% of our voting shares on a fully diluted basis (including outstanding options, warrants and convertible instruments). In addition, Ervington currently has the right to three votes on our board of directors and has appointed two members with an aggregate of three votes which constitutes a majority of the votes on our board of directors. As a result of these appointment rights and its voting control of our company, Ervington has the power to control the outcome of all matters submitted to our shareholders for approval,

including the election of our directors, our business strategy, our day-to-day operations and any proposed merger, consolidation or sale of all or substantially all of our assets. Ervington's control of our company could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, preventing a change in control of our company that might be otherwise beneficial to our shareholders, and possibly depress the trading price of our common stock. There can be no assurance that conflicts of interest will not arise with respect to Ervington's ownership and control of our company or that any conflicts will be resolved in a manner favorable to the other shareholders of our company.

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

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

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other economic factors that are beyond our control. The recent decline in oil prices from \$80 per barrel in December 2014 to \$45 per barrel in March 2015 has resulted in a decline in oil drilling rigs which has depressed the immediate level of exploration, development, and production activity which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. Even the perception of longer-term lower oil and natural gas prices by oil and natural gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and natural gas include:

- the level of supply and demand for oil and natural gas, especially demand for natural gas in the United States;
- governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;
- weather conditions and natural disasters;
- worldwide political, military, and economic conditions;
- the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;
- oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the cost of producing and delivering oil and natural gas; and
- potential acceleration of development of alternative fuels.

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

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

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

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

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

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



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

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

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

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

***We may acquire oil wells or form joint ventures or make investments in oil wells that could harm our operating results, dilute our stockholders' ownership, increase our debt or cause us to incur significant expense.***

As part of our business strategy, we intend to pursue acquisitions of oil wells. In fact, the use of proceeds of our recent financing is for the acquisition of such an oil field. We also may pursue strategic alliances and joint ventures that leverage our core technology. We have no experience with acquiring oil wells or interests therein. We may not be able to find suitable partners or acquisition candidates, and we may not be able to complete such transactions on favorable terms, if at all. If we make any acquisitions, we may not be able to integrate these acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. Any future acquisitions also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could have a material adverse



effect on our financial condition, results of operations and cash flows. Integration of an acquired company also may disrupt ongoing operations and require management resources that would otherwise focus on developing our existing business. We may experience losses related to investments in other companies, which could have a material negative effect on our results of operations. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license, strategic alliance or joint venture.

We intend to use the proceeds of our second closing with Ervington to finance our initial oil field acquisition. To finance any additional acquisitions or joint ventures, we may choose to issue shares of our common stock as consideration, which would dilute the ownership of our stockholders. If the price of our common stock is low or volatile, we may not be able to acquire other companies or fund a joint venture project using our stock as consideration. Alternatively, it may be necessary for us to raise additional funds for acquisitions through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all. In addition, we may choose to incur additional debt in order to finance such acquisitions, which may also negatively affect our financial position.

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

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

· pressure or irregularities in formations;

· equipment failures or accidents;

· fires, explosions, blowouts, and surface cratering;

· difficulty identifying and retaining qualified personnel;

· title problems;

· other adverse weather conditions; and

· shortages or delays in the delivery of equipment

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

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

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

multiple, conflicting and changing laws and regulations such as tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;

- failure by us to obtain regulatory approvals for the sale or use of our technology in various countries;

- difficulties in managing foreign operations;

financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;

- reduced protection for intellectual property rights;

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

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

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

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

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

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

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

***We may be adversely affected by actions of our competitors.***

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

***We intend to expend a significant amount of time and resources to develop additional down-hole tools and products related to our technology, and if the Plasma Pulse Technology does not achieve commercial acceptance, our operating results may suffer.***

We expect to spend a significant amount of time and resources to develop additional down-hole tools and enhancements to our current down-hole tool. In light of the long product development cycles, any developmental expenditure will be made well in advance of the prospect of deriving revenues from the use of the Plasma Pulse Technology. Our ability to commercially introduce and successfully market our Plasma Pulse Technology will be subject to a wide variety of challenges during this development cycle that could delay introduction of these products. If we do not achieve market acceptance of our technology, our operating results will suffer. Our technology may also be priced higher than alternative competitive technologies, which may impair commercial acceptance. We cannot predict whether our technology will achieve commercial acceptance.

***Most of our potential customers are owners of oil wells and are subject to risks faced by those industries.***

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

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

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

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

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

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

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

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

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

***There may be future dilution of our common stock.***

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

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

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

to attract, incentivize and retain our employees and will therefore incur the resulting stock-based compensation expense. This will continue to adversely affect our operating results in future periods.

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

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

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

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

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

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

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





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

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

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

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

- price and volume fluctuations in the overall stock market;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- the public's response to our press releases or other public announcements, including our filings with the SEC;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for our products;
- market conditions or trends in our industry or the economy as a whole;
- the loss of key personnel;

lawsuits threatened or filed against us;

- future sales of our common stock by our executive officers, directors and significant stockholders; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

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

Our Certificate of Incorporation authorizes the Board of Directors to issue up to 10 million shares of preferred stock, par value \$.001 per share. The preferred stock may be issued in one or more series, the terms of which may be determined by the Board of Directors at the time of issuance without further action by stockholders, and may include voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. Any preferred stock that is issued may rank ahead of our common stock, in terms of dividends, liquidation rights and voting rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of such an issuance, the Preferred Stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change of control of our company. Any delay or prevention of a change of control transaction or changes in our Board of Directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could require substantial premium over the then current market price per share. We currently have 3,137,500 Series A-1 Preferred Stock outstanding, 40,000 Series B Preferred Stock outstanding and have 4,500,000 Series C Preferred Stock outstanding. The Series C Preferred Stock has the right to annual dividends in preference to all other preferred stock and the common stock and the Series B Preferred Stock is also entitled to an annual dividend. The Series A-1, B and C Preferred Stock all have liquidation preferences over the common stock. In addition the vote of a majority of the Series C Preferred Stock will be required for the (i) merger, sale of substantially all of our assets or our recapitalization, reorganization, liquidation, dissolution or winding up, (ii) redemption or acquisition of shares of our common stock other than in limited circumstances, (iii) declaration or payment of a dividend or distribution with respect to our capital stock, (iv) making any loan or advance, (v) amending our Certificate of Incorporation or Bylaws, (vi) authorizing or creating any new class or series of equity security, (vii) increasing the number of authorized shares for issuance under any existing stock or option plan, (viii) materially changing the nature of the business, (ix) incurring any indebtedness, (x) engaging in or making investments not authorized by the Board of Directors, (xi) acquiring or divesting a material amount of assets (xii) selling, assigning, licensing, pledging or encumbering our material technology or intellectual property, and (xiii) entering into any corporate strategic relationship involving payment, contribution or assignment by us or to us of any assets. The vote of two-thirds of the Series A-1 Preferred Stock is also required to take certain actions similar to those set forth above.

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

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

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for the six months ended June 30, 2015**

The following shares were issued during the six months ended June 30, 2015:

i. an aggregate of 639,432 shares of Common Stock to convertible note holders upon conversion of an aggregate of \$12,789 of long-term convertible notes, inclusive of interest thereon, at an average share price of \$0.02 per share. The exchange of the Common Stock for debt is exempt from registration requirements under Section 3(a) (9) of the Securities Act of 1933, as amended (“the Securities Act”).

ii. An aggregate of 3,750,000 shares of Common Stock on the conversion of 375,000 Series A-1 Preferred Stock into common stock at a conversion ratio of ten Common shares for each Series A-1 preferred share. The conversion of Series A-1 Preferred Stock into common stock is exempt from registration requirements under section 3(a) (9) of the Securities Act.

iii. An aggregate of 3,500,000 shares of Common stock on the conversion of 35,000 Series B Preferred stock into common stock at a conversion ratio of one hundred Common shares for each series B Preferred share. The conversion of Series B Preferred Stock into common stock is exempt from registration requirements under section 3(a) (9) of the Securities Act.

iv. An aggregate of 4,500,000 shares of Series C Preferred stock were subscribed for realizing gross proceeds of \$14,750,000. The shares of Series C Preferred sold in the transaction were not registered under the Securities Act and were offered and sold in reliance on the exemption from registration afforded by Section 4(a)(2) under the Securities Act and corresponding provisions of state securities laws, which exempt transaction by an issuer not involving public offering. The investor acknowledges that it received restricted securities and the certificates evidencing such securities contain a legend stating the same.

## **Item 3. Defaults upon senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**Regulation  
Number**

**Exhibit**

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

**SIGNATURES**

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

**PROPELL TECHNOLOGIES GROUP, INC.**

DATE: August 14, 2015

(Registrant)

By: */s/John W. Huemoeller II*

John W. Huemoeller II, President and Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)