

Propell Corporation.
Form 10-Q
May 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

[mark one]

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

For the quarterly period ended: March 31, 2009

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

For the transition period from _____ to _____

Commission File Number 333-139354

PROPELL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

26-1856569
(IRS Employer Identification Number)

336 Bon Air Center, No. 352, Greenbrae, CA 94904

(Address of principal executive offices including zip code)

(415) 747-8775

(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

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Number of shares outstanding of the issuer's common stock as of the latest practicable date: 20,204,426 shares of common stock, \$.001 par value per share, as of May 12, 2009.

Transitional Small Business Disclosure Format (Check one): Yes No

PROPELL CORPORATION

Index

| PART I. FINANCIAL INFORMATION | Page |
|---|-------------|
| Item 1. Consolidated Financial Statements | |
| Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008 (audited) | 1 |
| Statements of Operations for the three months ended March 31, 2009 and 2008 (unaudited) | 2 |
| Statement of Stockholders' Equity (Deficit) as of March 31, 2009 (unaudited) | 3 |
| Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (unaudited) | 4 |
| Notes to Consolidated Financial Statements | 5 |
| Item 2. Management's Discussion and Analysis or Plan of Operation | 11 |
| Item 4T. Controls and Procedures | 18 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 19 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 19 |
| Item 3. Defaults Upon Senior Securities | 20 |
| Item 4. Submission of Matters to a Vote of Security Holders | 20 |
| Item 5. Other Information | 20 |
| Item 6. Exhibits | 20 |

PROPELL CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2009 and DECEMBER 31, 2008

| ASSETS | MARCH 31, 2009 | DECEMBER 31, 2008 |
|---|-------------------------|--------------------------|
| | <u>UNAUDITED</u> | <u>AUDITED</u> |
| Current Assets | | |
| Cash and cash equivalents | \$ 188,602 | \$ 136,659 |
| Accounts receivable, net | 22,459 | 18,751 |
| Prepaid expenses | 1,577 | 4,202 |
| Inventory | 134,960 | 179,230 |
| Deferred charges | 3,391 | 5,233 |
| Deposits-current | 16,619 | 1,499 |
| Total Current Assets | 367,608 | 345,574 |
| Property and Equipment, Net | 32,378 | 33,555 |
| Other Assets | | |
| Investments in unconsolidated entities | 0 | 0 |
| Website URL, net | 6,800 | 7,200 |
| Website asset, net | 49,980 | 26,405 |
| Deposits-long term | 43,790 | 62,314 |
| Total Other Assets | 100,570 | 95,919 |
| TOTAL ASSETS | \$ 500,556 | \$ 475,048 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities | | |
| Accounts payable | \$ 147,455 | \$ 177,150 |
| Accrued expenses and taxes | 93,407 | 114,016 |
| Customer deposits | 0 | 322 |
| Deferred revenue | 21,389 | 29,832 |
| Due to related party | 1,808 | 2,017 |
| Convertible notes payable | 0 | 1,730,000 |
| Total Current Liabilities | 264,059 | 2,053,337 |

| | | | | |
|---|----|-------------|----|-------------|
| TOTAL LIABILITIES | | 264,059 | | 2,053,337 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | | | |
| Common stock | | 20,204 | | 9,909 |
| Paid in capital | | 2,644,058 | | 457,723 |
| Distributions to affiliate | | (1,065,222) | | (938,664) |
| Accumulated deficit | | (1,362,543) | | (1,107,257) |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | | 236,497 | | (1,578,289) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ | 500,556 | \$ | 475,048 |

See notes to accompanying financial statements.

PROPELL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

| | <u>March 31, 2009</u> | <u>March 31, 2008</u> |
|--|-----------------------|-----------------------|
| Gross Revenues | \$ 56,104 | \$ 0 |
| Cost of Goods Sold | (57,681) | 0 |
| Gross Profit | (1,577) | 0 |
| Operating Expenses | (283,798) | (119,760) |
| Operating Loss | (285,375) | (119,760) |
| Other Expense | 30,089 | 0 |
| Net Loss before Provision for Income Taxes | (255,286) | (119,760) |
| Provision for Income Taxes | 0 | 0 |
| Net Loss | \$ (255,286) | \$ (119,760) |
| Weighted Average Number of Shares Outstanding | 13,340,777 | 0 |
| Net Loss per Share | \$ (0.02) | \$ 0.00 |

See notes to accompanying financial statements.

PROPELL CORPORATION**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)****AS OF MARCH 31, 2009**

| | Common Stock | | Additional Paid | Distributions | Accumulated | |
|---|--------------|--------|-----------------|---------------|-------------|-------------|
| | Shares | Amount | in Capital | to Affiliate | Deficit | Total |
| Balance, January 29, 2008 (Inception) | 0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Issuance of common stock to acquire Crystal Magic, Inc. | 5,400,000 | 5,400 | (5,400) | - | - | - |
| Issuance of common stock to acquire Auleron 2005, LLC | 136,088 | 136 | (136) | - | - | - |
| Issuance of common stock to acquire Mountain Capital, LLC | 2,094,864 | 2,095 | 381,709 | - | - | 383,804 |
| Conversion of convertible notes to common stock | 2,278,000 | 2,278 | 20,502 | - | - | 22,780 |
| Reclassification of intercompany payable | - | - | 61,048 | - | - | 61,048 |
| Distributions to affiliate | - | - | - | (938,664) | - | (938,664) |
| Net loss for the period ended December 31, 2008 | - | - | - | - | (1,107,257) | (1,107,257) |
| Balance, December 31, 2008 | 9,908,952 | 9,909 | 457,723 | (938,664) | (1,107,257) | (1,578,289) |
| Issuance of common stock to The Guild for services | 60,000 | 60 | (60) | - | - | - |
| Conversion of convertible notes to common stock | 8,650,000 | 8,650 | 1,721,350 | - | - | 1,730,000 |
| Issuance of common stock in rights offering | 1,585,474 | 1,585 | 426,493 | - | - | 428,078 |
| Reverse accrued interest on convertible notes | - | - | 41,664 | - | - | 41,664 |
| | - | - | (3,112) | - | - | (3,112) |

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Reclassification of
intercompany payable

| | | | | | | |
|---|------------|----------|--------------|---------------|---------------|------------|
| Distributions to affiliate | - | - | - | (126,558) | - | (126,558) |
| Net loss for the period ended March 31, 2009 | - | - | - | - | (255,286) | (255,286) |
| Balance, March 31, 2009 | 20,204,426 | \$20,204 | \$ 2,644,058 | \$(1,065,222) | \$(1,362,543) | \$ 236,497 |

See notes to accompanying financial statements.

PROPELL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

| | <u>March 31, 2009</u> | <u>March 31, 2008</u> |
|--|-----------------------|-----------------------|
| Cash Flows from Operating Activities: | | |
| Net loss for the period | \$ (255,286) | \$ (119,760) |
| Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities: | | |
| Depreciation and amortization expense | 1,576 | - |
| Changes in Assets and Liabilities | | |
| Decrease in accounts receivable | (4,031) | - |
| Increase in inventory | 46,524 | - |
| Decrease in deferred charges | 1,842 | - |
| Decrease in deposits | 3,404 | - |
| Increase (Decrease) in accounts payable | (29,324) | 31,221 |
| Increase (Decrease) in accrued expenses and taxes | 21,054 | 40,000 |
| Increase (Decrease) in deferred revenue | (8,443) | - |
| (Decrease) in due to related party | (208) | - |
| Net Cash Used in Operating Activities | (222,892) | (48,539) |
| Cash Flows from Investing Activities: | | |
| Development of website asset | (23,575) | - |
| Net Cash Used in Investing Activities | (23,575) | - |
| Cash Flows from Financing Activities: | | |
| Distributions (to) / from affiliate – Crystal Magic | (126,558) | 48,739 |
| Proceeds from rights offering | 428,078 | - |
| (Decrease) in intercompany payable to Auleron 2005 LLC | (3,111) | - |
| Net Cash Provided by Financing Activities | 298,409 | 48,739 |
| Net Increase in Cash and Cash Equivalents | 51,942 | 200 |
| Cash and Cash Equivalents – Beginning | 136,660 | 0 |
| Cash and Cash Equivalents – Ending | \$ 188,602 | \$ 200 |

Supplemental Cash Flow Information:

| | | | | |
|----------------------------|----|---|----|---|
| Cash paid for interest | \$ | 0 | \$ | 0 |
| Cash paid for income taxes | \$ | 0 | \$ | 0 |

See notes to accompanying financial statements.

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Propell Corporation (the Company) is a fully integrated provider of personalized products and services, delivered through multiple channels, including online stores, its own proprietary photo kiosks and independent and company-owned retail stores.

Propell Corporation is a Delaware corporation that was formed on January 29, 2008. Propell acquired 100% of the outstanding common stock of Crystal Magic, Inc. on April 10, 2008. Propell acquired 100% of the membership interests, and voting control, of Mountain Capital, LLC d/b/a Arrow Media Solutions and Auleron 2005, LLC on May 5, 2008.

Crystal Magic, Inc. (*Crystal*) was formed as a Florida corporation on April 10, 1998, is headquartered in Orlando, Florida and its primary business is to provide subsurface etched photo crystal and personalized subsurface etched promotional products. Crystal Magic owns and operates retail kiosks and displays in theme parks (Disneyworld (2) and Universal Orlando (2)). Crystal Magic utilizes the distribution channels of the Advertising Specialty Institute and/or the Promotional Products Association International organizations for its custom awards and gift products.

Mountain Capital, LLC d/b/a Arrow Media Solutions is a New York State Limited Liability Company which assembles and distributes free standing kiosks which produce pictures and related products and services using various input media such as camera digital memory cards, CD's etc. Mountain Capital's management, administrative, and service personnel are currently headquartered in Orlando, Florida with its assembly, warehouse and marketing operations in Brea, California.

Auleron 2005, LLC is a New York State Limited Liability Company performed a variety of technology services for customers throughout North America using independent subcontractors who are coordinated and directed through its Project Management Organization in its sole office in Orlando, Florida.

Propell does not have voting control of Crystal Magic, Inc. See note 16 – *Subsequent Events* – for additional information which impacts this control issue. Auleron 2005 LLC's operations have been temporarily discontinued.

See Note 6 – *Investments in Unconsolidated Entities* – for additional information as to how the investments in these two companies are accounted for in the attached financials statements.

The accompanying unaudited interim consolidated financial statements of Propell Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (SEC), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's annual report on Form 10-K. In the opinion of management, all adjustments necessary in order to make the financial statements not misleading have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Some notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year 2008 as reported in Form 10-K have been omitted.

Cash and Cash Equivalents

Propell considers all highly liquid investments with maturities of three months or less to be cash equivalents. At March 31, 2009 the Company had \$188,602 of unrestricted cash to be used for future business operations.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash deposits and trade receivables. In the normal course of business, the Company provides on-going credit evaluations of its customers and maintains allowances for possible losses. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At March 31, 2009, the Company did not have any deposits in excess of FDIC limits.

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which we could borrow funds with similar remaining maturities.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on property and equipment are determined using the straight-line method over the estimated useful lives of the assets.

Inventory

Inventory consists of kiosks and components and is stated at the lower of cost or market using the FIFO (first in, first out) method.

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 valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Compensated Absences

Employees of the Company are entitled to paid vacation depending upon length of service and other factors. The amount of compensation for future vacations cannot be reasonably estimated. The Company's policy is to recognize compensated vacations when actually paid to employees. Accordingly, no liability has been recorded in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Propell does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flows.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicated that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations.

Revenue Recognition

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

Principles of Consolidation

The consolidated financial statements include the accounts of Propell Corporation and Mountain Capital, LLC after elimination of intercompany accounts and transactions.

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Affiliates and Unconsolidated Entities

Propell uses the cost method to account for our investments in companies that are not controlled and for which there is no ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate.

Investments in affiliates in which the Company does not exercise control and has a 20% or more voting interest are accounted for using the equity method of accounting. If the fair value of an investment in an affiliate is below its carrying value and the difference is deemed to be other than temporary, the difference between the fair value and the carrying cost is charged to earnings.

See Notes 6 and 14.

NOTE 2 – LEASES

On March 1, 2007 Mountain Capital, LLC entered into a lease agreement to rent office and warehouse space in Brea, California. The term is three years without any renewal options. The total lease expense for period ending March 31, 2009 was \$9,388. The remaining commitment requires annual lease payments of \$32,340 and expires on February 28, 2010.

On May 5, 2008 Propel Corporation entered into a lease agreement to rent office space in San Anselmo, California. The term is through April 30, 2009 and we continue to rent on a month to month basis. The lease expense for the period ending March 31, 2009 was \$4,496. The remaining commitment requires lease payments of \$1,498.

Minimum annual rents for all leases for the remaining lease terms are as follows:

| <u>Period Through</u> | <u>Amount</u> | |
|-----------------------|---------------|--------|
| February 28, 2010 | \$ | 33,838 |
| Total | \$ | 33,838 |

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2009:

| | | |
|---|----|--------|
| Property and equipment | \$ | 52,176 |
| Less: accumulated depreciation and amortization | | 19,798 |
| Property and equipment, net | \$ | 32,378 |

Depreciation expense was \$1,576 for the period ended March 31, 2009.

NOTE 4 – PREPAID EXPENSES

Prepaid expenses consisted of the following at March 31, 2009:

| | | |
|-------------------|----|-------|
| Prepaid insurance | | 1,577 |
| | \$ | 1,577 |

NOTE 5 – DISTRIBUTIONS TO AFFILIATE

Propell made short-term advances to its wholly owned subsidiary, Crystal Magic, Inc., to be used as working capital, primarily to develop and expand its Web Stores on Demand program, in the amount of \$1,065,222. A total of \$126,558 was advanced during the quarter ended March 31, 2009. The advances are due upon demand and bear no interest. Management of Propell believes that Crystal may eventually be able to repay these advances to Propell; however, due to Propell's lack of control over Crystal Magic, the advances have been recorded as distributions to affiliate and are reflected as a reduction of stockholders' equity.

PROPELL CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2009****NOTE 6 – INVESTMENTS IN UNCONSOLIDATED ENTITIES**

In April 2008, Propell acquired 100% of the outstanding common shares of Crystal Magic, Inc. in exchange for Propell common shares. For reasons primarily related to a change in control clause in contracts that Crystal Magic, Inc. has with its major source of revenue, the former majority shareholder of Crystal was issued a preferred stock option, which effectively prevents Propell from having control of Crystal while this option is in place. Presently, this investment is being accounted for using the cost method since Propell does not have the ability to control Crystal Magic nor the ability to exercise significant influence over its operating and financial policies. Due to Crystal Magic, Inc.'s history of operating losses and its negative working capital position, it was determined that its fair value as of the date of acquisition and as of March 31, 2009, is \$-0-. See note 16 – *Subsequent Events* – for additional information which impacts this control issue.

In May 2008, Propell acquired 100% of the ownership interests of Auleron 2005, LLC. This investment is accounted for as an asset purchase. The operations of Auleron 2005, LLC have been temporarily discontinued. The fair value of the net assets of Auleron 2005, LLC as of the date of acquisition have been determined to be immaterial to the financial statements and at March 31, 2009 were determine to have \$-0- value.

See Notes 1 and 14.

NOTE 7 – ACCRUED EXPENSES AND TAXES

Accrued expenses and taxes consisted of the following at March 31, 2009:

| | | |
|-----------|----|--------|
| Payroll | \$ | 26,966 |
| Taxes | | 6,441 |
| Marketing | | 60,000 |
| | \$ | 93,407 |

NOTE 8 – OTHER EXPENSE

Other income and expense consisted of the following for the period ended March 31, 2009:

| | | |
|--------------------------------|----|--------|
| Interest income | \$ | 183 |
| SEC Printer Invoice Adjustment | | 23,420 |
| Insurance Claim/Damaged Kiosk | | 6,487 |
| Total other expense | \$ | 30,089 |

NOTE 9 – NOTES PAYABLE

On March 2, 2009, the Company converted \$1,730,000 in convertible notes payable to 8,650,000 shares of its common stock and has no notes payable as of March 31, 2009.

NOTE 10 – CONVERTIBLE NOTES PAYABLE

In March 2008, the Company issued \$22,780 of convertible notes payable. These notes converted to stock upon the successful merger of Crystal Magic, Inc., Mountain Capital, LLC and Auleron 2005, LLC with the Company. These mergers took place on April 10, 2008 and May 5, 2008, respectively and 2,278,000 shares of common stock were issued in exchange for the convertible notes.

On May 12, 2008, the Company issued an additional \$1,730,000 of convertible notes payable. These notes converted into 8,650,000 shares of our common stock on March 2, 2009. See Note 9.

PROPELL CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2009****NOTE 11 – INCOME TAXES**

For the periods ended March 31, 2009, Propell has incurred net losses and, therefore, has no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$1,362,543 at March 31, 2009, and will expire in the year 2028.

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows:

| | 2009 |
|-------------------------------------|------------|
| Deferred tax asset attributable to: | |
| Net operating loss carryover | \$ 463,265 |
| Valuation allowance | (463,265) |
| Net deferred tax asset | \$ -0- |

NOTE 12 – STOCKHOLDERS' EQUITY

Propell Corporation has 20,204,426 shares of common stock, \$.001 par value, issued and outstanding as of March 31, 2009. The total number of shares of stock which Propell Corporation shall have authority to issue is seventy five million (75,000,000) shares of Common Stock, par value \$.001 per share and ten million (10,000,000) shares of Preferred Stock, par value \$.001 per share.

In April 2008, Propell announced the successful merger of Crystal Magic, Inc. based in Orlando, Florida in exchange for 5,400,000 restricted shares of common stock valued at \$5,400. In May 2008, we announced the successful acquisition of Mountain Capital, LLC and Auleron 2005, LLC based in New York in exchange for 2,094,864 and 136,088 restricted shares of common stock, respectively valued at \$2,231. The investment in Crystal Magic is being accounted for using the cost method for accounting purposes. See Note 6.

In May 2008, convertible notes payable totaling \$22,780 were converted into 2,278,000 shares of common stock, per the terms of the convertible notes. See Note 10.

In March 2009, convertible notes payable totaling \$1,730,000 were converted into 8,650,000 shares of common stock, per the terms of the convertible notes. See Notes 9 and 10.

In March 2009, 60,000 shares of common stock were issued to The Guild, a marketing agency, in exchange for services rendered.

In March 2009, 1,585,474 shares of common stock were issued in a Rights Offering that raised \$428,078.

Propell made short-term advances to its wholly owned subsidiary, Crystal Magic, Inc., to be used as working capital, primarily to develop and expand its Web Stores on Demand program, in the amount of \$1,065,222. The advances are due upon demand and bear no interest. Management of Propell believes that Crystal may eventually be able to repay these advances to Propell; however, due to Propell's lack of control over Crystal Magic, the advances have been recorded as distributions to affiliate and are reflected as a reduction of stockholders' equity.

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash Financing Transactions

In May 2008, convertible notes payable totaling \$22,780 were converted into 2,278,000 shares of common stock, per the terms of the convertible notes. See Notes 10 and 12.

In March 2009, 60,000 shares of common stock were issued to The Guild, a marketing agency, in exchange for services rendered.

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Steven Rhodes, Chief Financial Officer of Propell Corporation, was granted an option to purchase 10,000 shares of Class A Preferred Stock of Crystal Magic, Inc. which, if issued, will vote on all matters with the holders of Crystal Magic common stock on a one thousand vote per share basis. Although it is a condition to the exercise of the option that Steven Rhodes execute an Administrative Agreement that restricts his ability to engage in certain actions, the option, together with the current board composition of Propell, allow Steven Rhodes to continue to be in a position to exert substantial control over Crystal. The interests of this concentration of ownership may not always coincide with the interests of Propell. Therefore, until such time as Steven Rhodes does not have such control, we will classify our interest in Crystal as an investment accounted for under the cost method. See note 16 – *Subsequent Events* – for additional information which impacts this control issue.

The Administrative Agreement that is required to be signed if Mr. Rhodes exercises the Class A Preferred Stock option contains terms that include the following:

- a) The board of Propell shall approve all operating budgets of Crystal and Crystal shall not incur any additional expenses that have not been set forth in the approved budget without the prior approval of the board;

- b) Crystal is to remit all operating revenue in excess of the amounts of its SBA loan payment obligations to Propell, and require Propell to make appropriate arrangements for the payment of expenses incurred by Crystal in the operation of its business.

Propell does not believe that this Agreement would subject it to a material future financial commitment.

NOTE 15 – GOING CONCERN

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

internal growth.

Management continues to seek funding to pursue its business plans.

NOTE 16 – SUBSEQUENT EVENTS

Crystal Magic's financial statements were not consolidated with ours for accounting purposes based on the fact that during the period ended March 31, 2009, Mr. Rhodes could exert substantial influence over our board of directors due to our lack of independent directors and Mr. Rhodes had an option to acquire shares of Crystal Magic that if exercised could have resulted in him, and not us, being deemed to have control over Crystal Magic. On April 10, 2009, Mr. Rhodes entered into an agreement with us which, among other things, terminated the option. In addition, while we have recently added an independent director to our Board of Directors, a majority of the members of our Board of Directors are still not independent.

On May 13, 2009, we raised an additional \$400,000 and issued an additional 1,481,481 shares of common stock and warrants exercisable for 2,222,222 shares of common stock in connection with our Rights Offering.

Item 2. Management's Discussion and Analysis of Plan of Operations

This discussion and analysis should be read in conjunction with the accompanying Financial Statements and related notes. Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, 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 of America 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, but we do not believe such differences will materially affect our financial position or results of operations. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined below in "Critical Accounting Policies," and have not changed significantly.

CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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

General

The following analysis of our consolidated financial condition and results of operations for the three months ended March 31, 2009 should be read in conjunction with the consolidated financial statements, including footnotes, and other information presented elsewhere in this Report on Form 10-Q and the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statement as of March 31, 2009 and our pro forma results of operations as of March 31, 2009, which have been prepared in accordance with accounting principles generally accepted in the United States. For accounting purposes, our interest in Crystal Magic, Inc. has been classified as an investment in our balance sheet and is accounted for under the cost method of accounting. At the time of the merger, Crystal Magic had a stockholders' deficit and thus we determined the carrying value of this investment in our financial statements to be zero. Crystal Magic's financial statements were not consolidated with ours for accounting purposes based on the fact that during the quarter ended March 31, 2009, Mr. Rhodes could exert substantial influence over our board of directors due to our lack of independent directors and Mr. Rhodes had an option to acquire shares of Crystal Magic that if exercised could have resulted in him, and not us, being deemed to have control over Crystal Magic. Mr. Rhodes recently entered into an agreement with us which, among other things, terminated the option. In addition, while we have recently added one independent director to our Board of Directors, a majority of the members of our Board of Directors are still not independent. The revenue derived from the operations of Mountain Capital, LLC is reflected in our revenue and expenses in our income statement and our investment in Auleron 2005, LLC is accounted for as an asset purchase. The operations of Auleron 2005, LLC have been temporarily discontinued. We determined the net fair market value of the assets and liabilities of Auleron 2005, LLC to be immaterial to our consolidated financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be

reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined below in Critical Accounting Policies.

Overview

Propell Corporation is a Delaware corporation and was originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (CMI) merged with an acquisition subsidiary of ours formed solely for the purpose of the merger. Crystal Magic was the surviving corporation, thus becoming our wholly owned subsidiary. As part of this transaction, we issued an aggregate of 5,400,000 shares to the former shareholders of CMI, thus giving the CMI shareholders 100% of our outstanding stock. Due to the significant influence that Steven Rhodes could have exerted with respect to Crystal Magic, CMI has been classified as an investment on Propell's balance sheet and has been accounted for under the cost method. Subsequent to this event, on May 6, 2008, we acquired each of 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 of ours. A total of 2,094,864 shares of the Company's common stock were issued to the members of Mountain Capital, LLC and a total of 136,088 shares of the Company's common stock were issued to the members of AUL. We accounted for the acquisition of AMS using the Purchase Method provided for in SFAS 141 – Business Combinations and allocated the purchase price to the assets and liabilities that were acquired, based on their fair values. We accounted for our investment in AUL as an asset purchase. The mergers were completed in order to form a consolidated enterprise with subsidiaries that each have experience in complementary parts of the imaging and personalized products industries, and to expand their capabilities both online and at retail.

Our reportable businesses are more fully individually described below under Operating Model and Reporting Structure.

OUR PLAN OF OPERATIONS

Our current operations involve sales and operations from two of our subsidiaries, CMI and AMS, as well as Propell. For accounting purposes, our interest in Crystal Magic, Inc. has been classified as an investment in our balance sheet and is accounted for under the cost method of accounting. At the time of the merger, Crystal Magic had a stockholders' deficit and thus we determined the carrying value of this investment in our financial statements to be zero. Crystal Magic's financial statements were not consolidated with ours for accounting purposes based on the fact that during the quarter ended March 31, 2009, Mr. Rhodes could exert substantial influence over our board of directors due to our lack of independent directors and Mr. Rhodes had an option to acquire shares of Crystal Magic that if exercised could have resulted in him, and not us, being deemed to have control over Crystal Magic. Mr. Rhodes recently entered into an agreement with us which, among other things, terminated the option. In addition, while we have recently added one independent director to our Board of Directors, a majority of the members of our Board of Directors are still not independent. Crystal Magic engaged in the initial merger with Propell for the purpose of consolidating revenue, expenses and resources. The revenue derived from the operations of Mountain Capital, LLC is reflected in our revenue and expenses in our income statement and our investment in Auleron 2005, LLC is classified as an asset

purchase. The operations of Auleron 2005, LLC have been temporarily discontinued. We determined the net fair market value of the assets and liabilities of Auleron 2005, LLC to be immaterial to our consolidated financial statements.

CMI's core business began nearly a decade ago by using proprietary laser technology to create three-dimensional laser images engraved inside solid crystal blocks (such as paperweights) based on photographs of consumers, which then are visibly engraved inside the crystal, and are sold as gifts in company-owned stores within Disney and Universal theme parks, and later expanded to a wide range of image-based merchandise, such as mugs, T-shirts and other merchandise upon which personal photos, logos or other artwork are printed, offered through mass market retail. The company's founder has long-standing relationships with Disney, Universal Studios and other entertainment locations. Today, our CMI division's products are sold at Disney World and Universal theme parks, as well as on a wholesale basis to retailers, to small and large corporate clients, and through the proprietary online system that allows partners to create Web Stores on Demand (also marketed as PropellStores). This system provides a special web site at which a customer-whether a business, group, or individual-can design and set up a web store featuring their own logos, photos or other artwork. That web store can then be embedded into the customer's own web site. We then operate that store for the customer, taking orders, manufacturing and shipping product and paying a share of our revenue to the customer.

Propell believes the PropellStores product opens up substantial new opportunities and channels by providing e-commerce web sites with the opportunity to easily integrate a personalized merchandise online store into their own site with little effort or cost. CMI and other strategic outsource partners will perform the fulfillment, manufacturing, shipping and billing of these product(s). The PropellStores product was a key part of our strategy for 2008 and continues to be a key part of our strategy for 2009 and beyond. CMI also has a long track record delivering personalized image-based products to the \$19.4 billion promotional, incentive and award products industry, delivering quantities anywhere from one unit to over 500,000 in a single order. CMI has served these markets since 2001, and sees opportunity to leverage the PropellStores product's capabilities to expand its efforts in the promotional products category.

AMS provides digital photo kiosk solutions for retail. In its traditional business, AMS has focused on partners in nontraditional channels – retailers who previously had limited presence in the photo category. For example, through our relationship with AmerisourceBergen, we enable independent drug stores and small chains to offer photo services comparable with those provided by mass-market chains such as Walgreens or CVS. Arrow Media Solution's growth rate accelerated during the last two years following its relationship with AmerisourceBergen.

Traditionally, AMS has sold its kiosks directly to the retail channel at a suggested retail of approximately \$13,500 each, while also gaining revenue from the sale of supplies and other products. Under this model, profits from the sale of retail kiosk units are retained by the retail owner. During the quarter ended March 31, 2009, to reduce costs and to permit the AMS sales team to assist in sales and marketing of our Internet initiatives, we have contracted out sales and support of our kiosk operation to a third party, who purchases inventory from us and in turn resells it to kiosk customers. By doing so, we have reduced our obligations and costs related to supporting kiosks in the field while permitting us to utilize limited personnel resources to market our Internet services.

Our ability to continue to execute on our plan of operations is contingent on our ability to raise additional capital to launch our Internet initiatives and expand marketing for our existing operations. In May 2009 we raised an additional \$400,000 in our rights offering which when aggregated with our other amounts raised totals \$2.56 million. We have used \$2.09 million of the \$2.56 million we raised over the last nine months in the form of convertible notes and a rights offering. The approximate \$470,000 that remains is not sufficient capital to last beyond the end of the year. It is our intent to raise significant additional capital through the sale of securities.

OPERATING MODEL AND REPORTING STRUCTURE

PROPELL CORPORATION

For the purposes of this MD&A, we shall report on Propell for the three months ended March 31, 2009 and 2008 which include AMS and Propell, but do not include the revenue or expenses of CMI or AUL and for the period ended March 31, 2008 do not include AMS since the AMS acquisition occurred on May 6, 2008. For a comparative analysis, we shall also provide pro forma financial statements for Propell for the three months ended March 31, 2009 and 2008, which shall include AMS for the three months ended March 31, 2008 and Propell from inception beginning January 29, 2008 but do not include the revenue or expenses of CMI or AUL. Management believes that the pro forma financials are relevant, material, and necessary for prospective investors to properly evaluate an investment in Propell.

For accounting purposes, during the three months ended March 31, 2009 our interest in Crystal Magic, Inc. has been classified as an investment in our balance sheet and is accounted for under the cost method of accounting. Crystal Magic's financial statements were not consolidated with ours for accounting purposes based on the fact that during the three months ended March 31, 2009, Mr. Rhodes could exert substantial influence over our board of directors due to our lack of independent directors and Mr. Rhodes had an option to acquire shares of Crystal Magic that if exercised could have resulted in him, and not us, being deemed to have control over Crystal Magic. At the time of the merger, Crystal Magic had a stockholders' deficit and thus we determined the carrying value of this investment in our financial statements to be zero. Mr. Rhodes recently entered into an agreement with us which, among other things, terminated the option. In addition, while we have recently added one independent director to our Board of Directors, a majority

of the members of our Board of Directors are still not independent. We accounted for our investment in Auleron 2005, LLC as an asset purchase. The operations of Auleron 2005, LLC have been temporarily discontinued. We determined the net fair market value of the assets and liabilities of Auleron 2005, LLC to be immaterial to our consolidated financial statements.

Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies have a material effect on reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the individual Notes to the Financial Statements for the three months ended March 31, 2009.

Revenue Recognition

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

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Estimates are based on historical experience, management expectations for future performance, and other assumptions as appropriate. Key areas affected by

estimates include the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows. We re-evaluate estimates on an ongoing basis; therefore, actual results may vary from those estimates.

Fair Values of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The carrying amount for borrowings under the financing agreement approximates fair value because of the variable market interest rates charged for these borrowings. We adopted SFAS No. 157, *Fair Value Measurements*, for financial assets and financial liabilities in the first quarter of fiscal 2008, which did not have an impact on our financial statements.

In accordance with FASB Staff Position (FSP FAS) 157-2, *Effective Date of FASB Statement No. 157*, we deferred application of SFAS No. 157 until January 1, 2009, the beginning of our fiscal year, in relation to nonrecurring nonfinancial assets and nonfinancial liabilities including goodwill impairment testing, asset retirement obligations, long-lived asset impairments and exit and disposal activities.

Concentration of Credit Risk

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

Recently Issued Accounting Standards

For a discussion of the adoption and potential impacts of recently issued accounting standards, refer to the *Recently Issued Accounting Standards* section of Note 1, *Summary of Significant Accounting Policies*, in the Notes to Financial Statements.

Consolidated Results of Operations for the Three Months Ended March 31, 2009 & 2008 (Unaudited)

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Propell incorporated on January 29, 2008. On May 6, 2008, we acquired Mountain Capital, LLC (d/b/a Arrow Media Solutions) (AMS). Therefore our result of operations includes selected income statement data for our wholly owned subsidiary AMS.

| | THREE MONTHS ENDED | | THREE MONTHS ENDED |
|--|--------------------|------------|--------------------|
| | 3/31/2009 | % of Sales | 3/31/2008 |
| Total sales | \$56,104 | | \$0 |
| Less :Cost of goods sold | 57,681 | 103% | - |
| Gross profit | (1,577) | -3% | - |
| Operating expenses | 283,798 | 506% | 119,760 |
| Loss from operations before interest, other income (expense), and income taxes | (\$285,375) | -509% | (\$119,760) |

For the three months ended March 31, 2009, substantially all of our revenue was derived from the operations of AMS.

We had total revenues of \$56,104, including \$55,341 from our AMS subsidiary. Cost of goods sold for such period totaled \$57,681 including \$57,105 from our AMS operation. Operating expenses for the three months ended March 31, 2009 totaled \$283,798 of which \$120,517 related to our AMS operation and \$163,281 related directly to Propell consisting of \$137,340 for salaries, filing fees and professional fees associated with going public, and \$25,941 relating to the creation of PropellStores. Comparative operating expenses for Propell increased by 36% for the quarter ended March 31 2009 vs. 2008 to \$163,281 from \$119,760, or \$43,521. This \$43,521 increase is a result of the following items, health insurance \$4,996, rent \$4,631, travel \$5,490, payroll \$89,990 & general office expenses of \$15,409 offset by the following reductions, marketing \$37,455, professional fees \$24,286, filing fees \$2,620 and sub contract labor of \$12,634.

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For the three months ended March 31, 2008, we generated no revenue on a consolidated basis; however AMS did generate \$201,410 in revenue that is not reflected in our Consolidated Statement of Operations but is reflected in our Pro Forma Consolidated Statement of Operations. Our AMS subsidiary was not acquired until May 6, 2008 & the inception date of Propell was January 29, 2008 for the primary purpose of creating a public entity to merge or acquire such as our wholly owned subsidiaries, CMI, AMS, and AUL. All of our operating expenses for the three months ended March 31, 2008 were related to salaries, filing fees and professional fees associated with going public.

For the first quarter ended March 31, 2009, our AMS operation generated negative gross margin of 1,764 as a result of our arrangement with our distributor in which in return for our distributor assuming certain of our service obligations we agreed to sell up to \$40,000 of our inventory at a 95% discount of our carrying cost during the first calendar quarter of 2009. The actual amount of inventory sold to our distributor during the first quarter was \$23,142, accounting for our negative gross profit. We have agreed to provide the same 95% discount to our carrying cost up to \$15,000 per quarter in subsequent quarters so long as we have the available inventory.

Liquidity and Capital Resources

To date, our primary sources of cash have been funds raised from the sale of our securities and revenue derived from the sale of our kiosks and related products. We have recently shifted our focus away from the sale of kiosks to the sale of what we believe to be a more economic product, our PropellStores. In addition, in order to have the staff needed to successfully engage in our Internet business we recently began using a third party to sell our kiosk products and to service our kiosk customers. Both of these changes have resulted in decreased revenue from our kiosk business. Although we anticipate that our Internet business will eventually replace our kiosk business it is difficult for us to assess what the impact of this shift will be on our overall revenue.

Three Months Ended March 31, 2009 - Cash Flow Activity

Propell's primary sources and uses of cash for the three months ended March 31, 2009, included losses from continuing operations, adjusted for non-cash items of income and expense and working capital needs and an influx of \$428,078 in cash from a rights offering which converted into 1,585,474 common shares of the Company's stock. Net cash used in operating activities from continuing operations was \$222,892 for the three months ended March 31, 2009. Propell's primary sources and uses of cash from operating activities for the period were losses from operations, as adjusted for non-cash items of income and expense which included:

.
A slight decrease in accounts receivables.

.
An increase in inventory related to our kiosk division.

.
A decrease in accounts payable primarily related to fees adjustments from our SEC printer associated with going public expenses.

.
A decrease in deferred revenue relating to extended service contracts for Kiosk units sold by AMS.

.
An increase in accrued expenses resulting from a payroll expenses.

Net cash used in investing activities for the three months ended March 31, 2009, was \$23,575 attributable to PropellStores web development.

Net cash provided by financing activities was \$298,409 which included \$428,078 from our rights offering that convert into common stock, and was offset by intercompany loans provided to CMI in the amount of \$126,558 and intercompany loans provided to AUL in the amount of \$3,111 to fund its operations. The loans are not evidenced by a note, are not secured by collateral and do not bear interest. The loans were used by Crystal Magic for working capital purposes. Management believes that Crystal may eventually be able to repay these loans; however, due to our lack of control over Crystal during the first quarter of 2009, the loans have been recorded as distributions to affiliate and are reflected as a reduction to our stockholders' equity. Currently, we are not obligated to fund any expenses of Crystal Magic other than the loans as described below under Contractual Obligations

Our ability to continue to execute on our plan of operations is contingent on our ability to raise additional capital to launch our Internet initiatives and expand marketing for our existing operations. In May 2009 we raised an additional \$400,000 in our rights offering which when aggregated with our other amounts raised totals \$2.56 million. We have used \$2.09 million of the \$2.56 million we raised over the last nine months in the form of convertible notes and a rights offering. The approximate \$470,000 that remains is not sufficient capital to last beyond the end of the year. It is our intent to raise significant additional capital through the sale of securities.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

Contractual Obligations

We are subject to the risk that our liquidity will be impacted by our obligation to fund certain expenses in connection with the certain loans owed by Crystal Magic. For the quarter ended March 31, 2009 and March 31, 2008, Crystal Magic had revenue of \$315,713 and \$679,713, respectively, cost of goods sold of \$36,386 and \$106,154, respectively, operating expenses of \$456,328 and \$687,692, respectively, and incurred a loss of \$186,758 and \$125,697, respectively. In April 2009, we entered into an agreement with Mr. Rhodes whereby we agreed to reimburse Crystal Magic for the interest payments on certain debt of Crystal Magic under loans issued by the Orlando National Bank under the approval of the US Small Business Administration (the SBA) and the monthly payments owed by Crystal Magic so long as the monthly payments remain at \$2193 until certain shares of Mr. Rhodes are released from escrow. We also agreed to assume the payment for these loans in the event of the bankruptcy of Crystal Magic and the demand of the SBA or the Orlando National Bank of payment under Mr. Rhodes' guarantee. Mr. Rhodes has agreed to place 2,000,000 shares of our stock owned by him in escrow to be used by us in our discretion at any time after one year to pay the amounts owed by Crystal Magic under these loans. The indemnification agreement that we had previously entered into with Mr. Rhodes and his wife with respect to payment of the loans if a demand was made against either of them under the guarantee has been terminated. Crystal Magic is obligated to make lease payments over the next five years in the amounts of \$50,801, \$52,325, \$53,895, \$55,512 & \$42,563 respectively. Crystal Magic is obligated to make SBA principal & interest payments for the next five years in the amount of \$216,713, \$192,269, \$111,254, \$98,126, \$38,284 respectively and thereafter, \$185,184, although the Orlando National Bank is currently permitting several of these loans to be serviced on an interest-only basis.

The following chart represents the long term debt & lease obligations for Propell & AMS.

| | Month Ended | | | | | |
|-----------------------------|-------------|-----------|--------|--------|--------|------------|
| | Mar-09 | Mar-10 | Mar-11 | Mar-12 | Mar-13 | Thereafter |
| Operating lease obligations | \$ 33,838 | \$ 33,838 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Total | \$ 33,838 | \$ 33,838 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

1) Represents lease obligations as shown in its Financial Statements. See Notes 2 to the Financial Statements.

Pro Forma Consolidated Results of Operations of Propell Corporation for the Three Months Ended March 31, 2009 as compared to the Results of Operations for the Three Months Ended March 31, 2008

Propell Pro forma**The Three months ended March 31, 2009 and 2008**

| | THREE MONTHS ENDED | | THREE MONTHS ENDED | |
|---|--------------------|---------------|--------------------|---------------|
| | 3/31/2009 | % of Sales | 3/31/2008 | % of Sales |
| Arrow Media Services | \$55,341 | 99% | \$201,410 | 100% |
| Propell | 763 | 1% | 0 | 0% |
| Total sales | 56,104 | 100% | 201,410 | 100% |
| Less: Cost of goods sold | 57,681 | 103% | 128,787 | 64% |
| Gross profit | (1,577) | -3% | 72,623 | 36% |
| Operating expenses | 283,798 | 506% | 344,157 | 171% |
| Loss from operations before interest, other income (expense), and income taxes | (\$285,375) | -509% | (\$271,534) | -135% |

For the three months ended March 31, 2009, substantially all of our revenue was derived from the operations of AMS. We had total revenues of \$56,104, including \$55,341 from our AMS subsidiary. Cost of goods sold for such period totaled \$57,681 including \$57,105 from our AMS operation. Operating expenses totaled \$283,798 of which \$120,517 related to our AMS operation and \$163,281 related directly to Propell consisting of, \$137,340 relating to salaries, filing fees and professional fees associated with going public, and \$25,941 relating to the creation of PropellStores.

For the three months ended March 31, 2008 Propell did not generate any revenue and all of our revenue was generated from the operations of AMS. For the three months ended March 31, 2009, revenue of AMS on a pro forma basis decreased 72.5% from \$201,410 for the quarter ended March 31, 2008 as compared to revenue of \$55,341 for the quarter ended March 31, 2009. This decrease in sales was attributed to our shift in focus which led to us using a third party to sell our kiosk products. Cost of goods sold for AMS for the same comparative period decreased 56% from \$128,784 to \$57,105. Gross margin as a percentage of sales decreased for AMS for the period ended March 31, 2009 to -3% as compared to 36% for the period ended March 31, 2008 as a result of our arrangement with our distributor in which we agreed to sell up to \$40,000 of our inventory at a 95% discount of our carrying cost. The actual amount of inventory sold to our distributor during the first quarter was \$23,142, accounting for our negative gross profit. Excluding this arrangement, our AMS gross margin percentage would have been 38%, a slight increase above the comparative quarter as a result of higher margins we generate from consumable sales. Operating expenses for AMS decreased 45% from \$224,397 for the year quarter ended March 31, 2008 to \$120,517 for the quarter ended March 31, 2009 as a result of decreases of \$55,355 in payroll, \$1,912 in rent, \$6,715 in office expenses, \$4,620 in insurance, \$19,053 in professional fees \$10,536 in sales & marketing expenses and \$3,088 in warranty costs. In addition, operating expenses for Propell increased 36% from \$119,760 for the quarter ended March 31, 2008 to \$163,281 for the quarter ended March 31, 2009. Net loss for AMS was \$115,794 for the year quarter ended March 31, 2009 (a decrease of 23%) as compared to \$150,579 for the quarter ended March 31, 2008 primarily as a result of the decrease in operating expenses that outpaced lost gross margin. Net loss on a consolidated pro forma basis was \$255,286 for the quarter ended March 31, 2009 (a decrease of 6%) as compared to \$270,339 for the quarter ended March 31, 2008 primarily as a result of the decrease in operating expenses of AMS that outpaced lost gross margin which was offset by the increased operating expenses of Propell.

Crystal Magic, Inc. (CMI)

Overview

CMI was formed as a Florida Corporation on April 10, 1998. Headquartered in Orlando, Florida, CMI provides a family of personalized image-based products and services including 3-D images engraved inside solid crystal, surfaced-etched glass blocks (such as paperweights) based on photographs of consumers, which then are visible engraved inside the crystal, and a wide selection of other imaged-based gifting and promotional products, such as mugs, T-shirts and other merchandise upon which personal photos, logos or other artwork are printed. CMI's products and services are sold through multiple sales channels including four company owned retail stores, distributors, other retailers, resellers and a number of e-commerce websites.

CMI categorizes its sales in four unique groups: theme park sales, promotional product sales, reseller sales and Internet/e-commerce sales. CMI generates revenues and profits from the sale of its products, technology and solutions to consumers, businesses and creative professionals.

CMI is currently focused on its go-to-market initiative of reducing manufacturing costs and building a more diverse revenue model, with each revenue stream sharing a common goal: to enable the capture and delivery of images and image related products to consumers and businesses.

Auleron 2005, LLC (d/b/a Auleron Technologies) (AUL)

Overview

Auleron 2005, LLC (AUL) was formed as a New York LLC on March 17, 2005. Originally headquartered in Lake Placid, AUL was originally a service provider to third parties, helping retail, financial and technology organizations install new hardware and software in various locations. In the merger into a subsidiary of Propell, the AUL infrastructure has been maintained to serve the internal needs of AMS, making available an on-call network of over 3,500 technicians (non-employee consultants) to service our clients, giving us the ability to compete with large providers of photo kiosks. Management believes that the ability to manage this network is a highly effective tool in reassuring large customers that we can provide sufficient field support.

In the last quarter of 2007, management decided to temporarily shut down operations of AUL. Consequently as of March 31, 2008, all operations have ceased. Since AUL and AMS had the same ownership structure prior to the mergers, we did not separately negotiate the purchase price of each company. However, based upon the net asset value of each company (AMS was approximately 94% of the net asset value acquired and AUL approximately 6% of the net asset value acquired) the purchase price was allocated such that the former owners of AUL and AMS received 6% and 94% of the aggregate shares issued in connection with the two mergers.

Item 4T - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer, with assistance from other members of our management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2009 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2009 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

In March 2009, we issued 8,650,000 shares of our common stock in connection with the conversion of convertible notes in the principal amount of \$22,780 upon consummation of our PIPE offering. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In March 2009, we issued to 36 individuals 1,585,574 shares of our common stock and warrants exercisable into 2,378,211 shares of common stock at a price of \$.27 per share. The offering and sale of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) and Regulation D under the Act since the issuance by us did not involve a public offering and the requirements of Regulation D were met. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In connection with the cancellation of the Amended Note with Lanai Investments, LLC, an entity controlled by Steven Rhodes, the Company issued Steven Rhodes warrants exercisable for 100,000 shares of the Company's common stock upon the same terms as the warrants issued to investors in the beginning of 2009 in the Company's PIPE transaction. The offering and sale of the securities qualified for exemption under Section 4(2) of the Act since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to only one person and because of the manner of the offering. In addition, the investor had the

necessary investment intent as required by Section 4(2) since he agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In March 2009, we issued 60,000 shares of our common stock to The Guild for services rendered. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Regulation

S-B Number Exhibit

| | |
|------|---|
| 31.1 | Certification of the Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act |

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.

DATE: May 15, 2009

PROPELL CORPORATION

(Registrant)

By: */s/Edward L. Bernstein*
Edward L. Bernstein President and Chief Executive
Officer

(Principal Executive Officer)