

Propell Technologies Group, Inc.  
Form 10-Q  
August 15, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10 – Q**

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

**For the quarterly period ended: June 30, 2016**

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

For the transition period from to

**Commission File Number 000-53488**

**PROPELL TECHNOLOGIES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**26-1856569**

(IRS Employer Identification Number)

**10655 Bammel North Houston Road**

**Suite 100, Houston, Texas 77086**

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

**(713) 227 - 0480**

(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 268,558,931 shares of common stock, \$.001 par value per share, as of August 15, 2016.

## **PROPELL TECHNOLOGIES GROUP, INC**

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

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

### **NOTE REGARDING COMPANY REFERENCES**

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

**PROPELL TECHNOLOGIES GROUP, INC.**

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**Item 1.**

**PROPELL TECHNOLOGIES GROUP, INC.**

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PROPELL TECHNOLOGIES GOU, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | June 30,<br>2016<br>Unaudited | December<br>31,<br>2015 |
|--|-------------------------------|-------------------------|
| Assets   |                               |                         |
| Current Assets   |                               |                         |
| Cash   | \$9,923,473                   | \$11,700,143            |
| Accounts receivable, net   | 77,039                        | 913                     |
| Prepaid expenses   | 45,891                        | 227,010                 |
| Total Current Assets   | 10,046,403                    | 11,928,066              |
| Non-Current Assets   |                               |                         |
| Plant and equipment, net   | 826,708                       | 690,538                 |
| Intangibles, net   | 192,500                       | 227,500                 |
| Deposits   | 9,168                         | 2,200                   |
| Total Non-Current Assets   | 1,028,376                     | 920,238                 |
| Total Assets   | \$11,074,779                  | \$12,848,304            |
| Liabilities and Stockholders' Equity   |                               |                         |
| Current Liabilities  |                               |                         |
| Accounts payable   | \$102,319                     | \$150,071               |
| Accounts payable - related parties   | 469,427                       | 1,000                   |
| Accrued expenses and other payables  | 62,009                        | 290,947                 |
| Notes payable  | 3,000                         | 3,000                   |
| Total Current Liabilities  | 636,755                       | 445,018                 |
| Stockholders' Equity   |                               |                         |
| Series A-1 Convertible Preferred stock, \$0.01 par value; 5,000,000 shares designated, 3,137,500 shares issued and outstanding. (liquidation preference \$251,000) | 3,138                         | 3,138                   |
| Series B Convertible, Redeemable Preferred Stock, \$0.001 par value; 500,000 shares designated; 40,000 issued and outstanding. (liquidation preference \$480,000)  | 40                            | 40                      |
| Series C Convertible, Preferred Stock, \$0.001 par value, 4,500,000 shares designated, 4,500,000 issued and outstanding (liquidation preference \$14,750,000)      | 4,500                         | 4,500                   |
| Common stock, \$0.001 par value; 500,000,000 shares authorized, 268,558,931 shares issued and outstanding.   | 268,559                       | 268,559                 |
| Additional paid-in-capital   | 26,314,080                    | 26,271,184              |
| Accumulated deficit  | (16,152,293)                  | (14,393,474)            |
| Total stockholder's equity - controlling interest  | 10,438,024                    | 12,153,947              |
| Non-controlling interest   | -                             | 249,339                 |
| Total Stockholders' Equity   | 10,438,024                    | 12,403,286              |

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|  |              |              |
|--|--------------|--------------|
| Total Liabilities and Stockholders' Equity | \$11,074,779 | \$12,848,304 |
|--|--------------|--------------|

See notes to unaudited condensed consolidated financial statements

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

|  | Three months<br>ended<br>June 30,<br>2016 | Three months<br>ended<br>June 30,<br>2015 | Six months<br>ended<br>June 30,<br>2016 | Six months<br>ended<br>June 30,<br>2015 |
|--|---|---|---|---|
| Net Revenue  | \$65,531                                  | \$8,500                                   | \$147,768                               | \$91,000                                |
| Cost of Goods Sold   | 16,887                                    | 42,147                                    | 126,934                                 | 99,970                                  |
| Gross Profit (Loss)  | \$48,644                                  | \$(33,647)                                | \$20,834                                | \$(8,970)                               |
| Sales and Marketing  | 11,747                                    | 2,094                                     | 17,646                                  | 2,691                                   |
| Professional fees  | 98,806                                    | 226,333                                   | 206,480                                 | 382,064                                 |
| Business development                                       | 15,671                                    | -   | 164,422                                 | -                                       |
| Consulting fees  | 374,472                                   | 125,280                                   | 815,291                                 | 219,667                                 |
| General and administrative                                 | 473,773                                   | 390,477                                   | 956,390                                 | 773,568                                 |
| Depreciation and amortization                              | 34,996                                    | 36,883                                    | 69,084                                  | 69,316                                  |
| Total Expense  | 1,009,465                                 | 781,067                                   | 2,229,313                               | 1,447,306                               |
| Loss from Operations                                       | (960,821)                                 | (814,714)                                 | (2,208,479)                             | (1,456,276)                             |
| Other (expense) income                                     | (763)                                     | -   | 199,248                                 | -                                       |
| Foreign currency gain                                      | 1,073                                     | -   | 1,073                                   | -                                       |
| Amortization of debt discount and finance costs            | -   | -   | -                                       | (53,100)                                |
| Change in fair value of derivative liabilities             | -   | -   | -                                       | 18,455                                  |
| Loss before Provision for Income Taxes                     | (960,511)                                 | (814,714)                                 | (2,008,158)                             | (1,490,921)                             |
| Provision for Income Taxes                                 | -   | -   | -                                       | -                                       |
| Net Loss   | (960,511)                                 | (814,714)                                 | (2,008,158)                             | (1,490,921)                             |
| Net loss attributable to non-controlling interest          | -   | -   | 249,339                                 | -                                       |
| Net Los Attributable to Controlling Interest               | (960,511)                                 | (814,714)                                 | (1,758,819)                             | (1,490,921)                             |
| Deemed preferred stock dividend                            | -   | (1,355,085)                               | -                                       | (2,456,781)                             |
| Undeclared Series B and Series C Preferred stock dividends | (156,071)                                 | (62,586)                                  | (312,142)                               | (145,161)                               |
| Net loss available to common stock holders                 | \$(1,116,582)                             | \$(2,232,385)                             | \$(2,070,961)                           | \$(4,092,863)                           |
| Net Loss Per Share - Basic and Diluted                     | \$(0.00)                                  | \$(0.01)                                  | \$(0.01)                                | \$(0.02)                                |



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|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Weighted Average Number of Shares Outstanding -<br>Basic and Diluted | 268,558,931 | 256,366,623 | 268,558,931 | 254,006,478 |
|--|-------------|-------------|-------------|-------------|

See notes to unaudited condensed consolidated financial statements

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

|  | <b>Six months</b> | <b>Six months</b> |
|--|-------------------|-------------------|
|  | <b>ended</b>      | <b>ended</b>      |
|  | June 30,          | June 30,          |
|  | 2016              | 2015              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                               |                   |                   |
| Net loss attributable to the company                                       | \$(1,758,819 )    | \$(1,490,921 )    |
| Less: loss attributable to non-controlling interest                        | (249,339 )        | -                 |
| Net loss   | (2,008,158 )      | (1,490,921 )      |
| Adjustment to reconcile net loss to net cash used in operating activities: |                   |                   |
| Depreciation expense   | 34,084            | 34,316            |
| Amortization expense   | 35,000            | 35,000            |
| Loss on theft of fixed assets  | 1,248             | -                 |
| Provision for bad debt   | 22,700            | -                 |
| Amortization of debt discount  | -                 | 16,232            |
| Equity based compensation charge   | 42,895            | 482,572           |
| Derivative financial liability   | -                 | (18,455 )         |
| Gain on debt forgiven  | (200,000 )        | -                 |
| Changes in Assets and Liabilities  |                   |                   |
| Accounts receivable  | (98,826 )         | (3,499 )          |
| Prepaid expenses and other current assets                                  | 181,119           | (76,346 )         |
| Accounts payable   | (47,752 )         | (202,048 )        |
| Accounts payable - related party   | 466,145           | -                 |
| Accrued liabilities  | (26,655 )         | 13,555            |
| Accrued interest   | -                 | (11,261 )         |
| Cash Used in Operating Activities  | (1,598,200 )      | (1,220,855 )      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                               |                   |                   |
| Purchase of property and equipment   | (171,502 )        | (413,786 )        |
| Investment in deposit  | (6,968 )          | -                 |
| NET CASH USED IN INVESTING ACTIVITIES                                      | (178,470 )        | (413,786 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                               |                   |                   |
| Proceeds on issuance of Series C Preferred stock                           | -                 | 14,750,000        |
| Proceeds from notes payable and advances                                   | -                 | 125,000           |
| Repayment of notes payable and advances                                    | -                 | (421,000 )        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                  | -                 | 14,454,000        |
| NET (DECREASE) INCREASE IN CASH  | (1,776,670 )      | 12,819,359        |
| CASH AT BEGINNING OF PERIOD  | 11,700,143        | 40,844            |
| CASH AT END OF PERIOD  | \$9,923,473       | \$12,860,203      |

CASH PAID FOR INTEREST AND TAXES:

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

NON-CASH INVESTING AND FINANCING ACTIVITIES

|                              |     |          |
|------------------------------|-----|----------|
| Conversion of debt to equity | \$- | \$12,789 |
|------------------------------|-----|----------|

See notes to unaudited condensed consolidated financial statements

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

**1 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 and six months ended June 30, 2016 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this quarterly report on Form 10-Q should be read in conjunction with our audited financial statements included in our annual report on Form 10-K as of and for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the “SEC”).

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

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

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited

consolidated financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

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

**b) Principles of Consolidation**

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

Propell Technologies Group, Inc. – Parent Company

Novas Energy USA Inc. (wholly owned)

Novas Energy North America, LLC (60% owned)

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

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

**c) Use of Estimates**

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

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

**d) Recent Accounting Pronouncements**

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

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

**e) 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, 2016 and December 31, 2015, respectively, the Company had no cash equivalents.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At June 30, 2016, the Company had cash balances of \$9,923,473, which exceeded the federally insured limits by \$9,510,855. At December 31, 2015, the Company had cash balances of \$11,700,143, which exceeded the federally insured limits by \$10,877,045.

**f) Related parties**

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

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

Prepaid expenses consisted of the following as of June 30, 2016 and December 31, 2015:

|                                | June 30, 2016 | December 31, 2015 |
|--------------------------------|---------------|-------------------|
| Prepaid insurance              | \$ 26,858     | \$ 28,180         |
| Expenses in excess of billings | -             | 155,606           |
| Prepaid professional fees      | 18,336        | 42,404            |
| Other                          | 697           | 820               |
|                                | \$ 45,891     | \$ 227,010        |

**4 PLANT AND EQUIPMENT**

Plant and Equipment consisted of the following as of June 30, 2016 and December 31, 2015:

|                                | <b>June 30, 2016</b> | <b>December 31, 2015</b> |
|--------------------------------|----------------------|--------------------------|
| Capital work in progress       | \$ 602,294           | \$ 453,228               |
| Plasma pulse tool              | 310,374              | 310,374                  |
| Furniture and equipment        | 12,785               | 27,667                   |
| Field equipment                | 20,311               | 19,627                   |
| Computer equipment             | 5,176                | 3,887                    |
| Computer software              | 5,954                | -                        |
| Total cost                     | 956,894              | 814,783                  |
| Less: accumulated depreciation | (130,186 )           | (124,245 )               |
| Property and equipment, net    | \$ 826,708           | \$ 690,538               |

Depreciation expense was \$34,084 and \$34,316 for the six months ended June 30, 2016 and 2015, respectively.

**5 INTANGIBLES**



Intangibles consisted of the following as of June 30, 2016 and December 31, 2015, respectively:

|                                | <b>June 30, 2016</b> |   | <b>December 31, 2015</b> |
|--------------------------------|----------------------|---|--------------------------|
| License agreements             | \$ 350,000           |   | \$ 350,000               |
| Website development            | 8,000                |   | 8,000                    |
| Total cost                     | 358,000              |   | 358,000                  |
| Less: accumulated amortization | (165,500             | ) | (130,500                 |
| Intangibles, net               | \$ 192,500           |   | \$ 227,500               |

Amortization expense was \$35,000 for the six months ended June 30, 2016 and 2015.

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

**5 INTANGIBLES (continued)**

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

|      | <b>Amount</b> |
|------|---------------|
| 2016 | \$500,000     |
| 2017 | 500,000       |
| 2018 | 500,000       |
| 2019 | 500,000       |
| 2020 | 500,000       |
|      | \$2,500,000   |

**6 ACCOUNTS PAYABLE - RELATED PARTY**

Accounts payable to related parties includes the following:

|                               | <b>June 30, 2016</b> | <b>December 31, 2015</b> |
|-------------------------------|----------------------|--------------------------|
| Technovita Technologies Corp. | \$ 469,427           | \$ 1,000                 |
|                               | \$ 469,427           | \$ 1,000                 |

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

**7 ACCRUED LIABILITIES AND OTHER PAYABLES**

Accrued liabilities consisted of the following as of June 30, 2016 and December 31, 2015, respectively:

**June 30, 2016    December 31, 2015**

|                      |           |            |
|----------------------|-----------|------------|
| Payroll liabilities  | \$ 41,096 | \$ 38,063  |
| Severance accrual    | -         | 31,109     |
| Accrued Royalties    | 20,913    | 14,653     |
| License fees payable | -         | 200,000    |
| Other                | -         | 7,122      |
|                      | \$ 62,009 | \$ 290,947 |

The license fee payable to Novas BVI for the rights to use the Licensed Plasma Pulse Technology (defined below) in Mexico was waived on March 29, 2016.

**PROPELL TECHNOLOGIES GROUP, INC.**

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

**8 STOCKHOLDERS' EQUITY**

**a) Preferred Stock**

**i) Series B Convertible Preferred Stock**

We have undeclared dividends on the Series B Preferred stock amounting to \$109,479 as of June 30, 2016. If the dividends are paid in stock, the beneficial conversion feature of these undeclared dividends will be recorded upon the declaration of these dividends. The computation of loss per common share for the three and six months ended June 30, 2016 takes into account these undeclared dividends.

**ii) Series C Convertible Preferred Stock**

The Company has undeclared dividends on the Series C Preferred stock amounting to \$663,397 as of June 30, 2016. The computation of loss per common share for the three and six months ended June 30, 2016 takes into account these undeclared dividends.

**b) Stock Options**

**i) Plan options**

At June 30, 2016 and December 31, 2015, there were 380,950 Plan options issued and outstanding, under the Stock Option Plan.

No plan options were issued during the six months ended June 30, 2016.

A summary of all of our option activity during the period January 1, 2015 to June 30, 2016 is as follows:

|                                      | <b>Shares<br/>Underlying<br/>Options</b> | <b>Exercise<br/>price per<br/>share</b> | <b>Weighted<br/>average<br/>exercise<br/>price</b> |
|--------------------------------------|--|---|--|
| <b>Outstanding January 1, 2015</b>   | <b>380,950</b>                           | <b>\$0.51 to 13.50</b>                  | <b>\$ 0.90</b>                                     |
| Granted – plan options               | -  | -                                       | -  |
| Granted – non plan options           | -  | -                                       | -  |
| Forfeited/Cancelled                  | -  | -                                       | -  |
| Exercised                            | -  | -                                       | -  |
| <b>Outstanding December 31, 2015</b> | <b>380,950</b>                           | <b>\$0.51 to 13.50</b>                  | <b>\$ 0.90</b>                                     |
| Granted – plan options               | -  | -                                       | -  |
| Granted – non plan options           | 4,000,000                                | \$0.08 to 0.09                          | 0.09   |
| Forfeited/Cancelled                  | -  | -                                       | -  |
| Exercised                            | -  | -                                       | -  |
| <b>Outstanding June 30, 2016</b>     | <b>4,380,950</b>                         | <b>0.08 to 13.50</b>                    | <b>0.16</b>  |

Stock options outstanding as of June 30, 2016 and December 31, 2015 as disclosed in the above table, have an intrinsic value of \$0 and \$0, respectively.

**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8 STOCKHOLDERS' EQUITY (continued)****b) Stock Options (continued)**

The options outstanding and exercisable at June 30, 2016 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               | 2.96   | \$                              | 3,480               | \$                              | 2.96   |
| \$ 12.50       | 2,000               | 4.28   | \$                              | 2,000               | \$                              | 4.28   |
| \$ 8.50        | 500                 | 5.00   | \$                              | 500                 | \$                              | 5.00   |
| \$ 5.00        | 14,800              | 5.29   | \$                              | 14,800              | \$                              | 5.29   |
| \$ 0.65        | 36,924              | 6.75   | \$                              | 36,924              | \$                              | 6.75   |
| \$ 0.63        | 38,096              | 2.00   | \$                              | 38,096              | \$                              | 2.20   |
| \$ 0.51        | 285,150             | 3.79   | \$                              | 285,150             | \$                              | 3.79   |
| \$ 0.09        | 3,000,000           | 4.51   | \$                              | -                   | \$                              | -  |
| \$ 0.08        | 1,000,000           | 4.67   | \$                              | -                   | \$                              | -  |
|                | 4,380,950           | 4.50   | \$ 0.16                         | 380,950             | \$ 0.90                         | 3.95   |

The weighted-average grant-date fair values of options granted during the six months ended June 30, 2016 was \$277,674 (\$0.07 per option). As of June 30, 2016 there were unvested options to purchase 4,000,000 shares of common stock. Total expected unrecognized compensation cost related to such unvested options is \$234,777 which is expected to be recognized over a period of 32 months.

The Company has recorded an expense of \$42,895 and \$0 for the six months ended June 30, 2016 and 2015 relating to options issued.

**(d) Warrants**

The warrants outstanding and exercisable at June 30, 2016 are as follows:

| Exercise Price | Warrants Outstanding |  |                                 | Warrants Exercisable |                                 |  |
|----------------|----------------------|--|---------------------------------|----------------------|---------------------------------|--|
|                | Number Outstanding   | Weighted Average Remaining Contractual life in years | Weighted Average Exercise Price | Number Exercisable   | Weighted Average Exercise Price | Weighted Average Remaining Contractual life in years |
| \$ 0.30        | 375,000              | 2.33   | \$                              | 375,000              | \$                              | 2.33   |
| \$ 0.25        | 1,751,667            | 2.99   | \$                              | 1,751,667            | \$                              | 2.99   |
| \$ 0.15        | 525,500              | 2.99   | \$                              | 525,500              | \$                              | 2.99   |
| \$ 0.25        | 1,508,333            | 3.09   | \$                              | 1,508,333            | \$                              | 3.09   |
| \$ 0.15        | 577,499              | 3.10   | \$                              | 577,499              | \$                              | 3.10   |
| \$ 0.25        | 968,166              | 3.10   | \$                              | 968,166              | \$                              | 3.10   |
| \$ 0.25        | 633,333              | 3.15   | \$                              | 633,333              | \$                              | 3.15   |
|                | 6,339,498            | 3.02   | \$ 0.24                         | 6,339,498            | \$ 0.24                         | 3.02   |

The warrants outstanding have an intrinsic value of \$0 as of June 30, 2016 and 2015.

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**PROPELL TECHNOLOGIES GROUP, INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9 EQUITY BASED COMPENSATION**

Equity based compensation is made up of the following:

|  | <b>Six months<br/>ended<br/>June 30, 2016</b> | <b>Six months ended<br/>June 30, 2015</b> |
|--|---|---|
| Stock option compensation charge           | \$ 42,895                                     | \$ -                                      |
| Restricted stock award compensation charge | -   | 482,572                                   |
|  | <b>\$ 42,895</b>                              | <b>\$ 482,572</b>                         |

**10 OTHER (EXPENSE) INCOME**

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

**11 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, 2016 and 2015, all stock options, unvested restricted stock awards, warrants, convertible preferred stock and convertible notes were excluded from the computation of diluted net loss per share. Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their affect would have been anti-dilutive are as follows:



|   | <b>Six months<br/>ended<br/>June 30, 2016<br/>(Shares)</b> | <b>Six months<br/>ended<br/>June 30, 2015<br/>(Shares)</b> |
|---|--|--|
| Options to purchase shares of common stock  | 4,380,950  | 380.950  |
| Restricted stock awards – unvested          | -  | 9,500,000  |
| Warrants to purchase shares of common stock | 6,339,498  | 6,339,498  |
| Series A-1 convertible preferred shares     | 31,375,000   | 31,375,000   |
| Series B convertible preferred shares       | 4,000,000  | 4,000,000  |
| Series C convertible preferred shares       | 120,000,000  | -  |
|   | 166,095,448  | 51,595,448   |

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

**12 RELATED PARTY TRANSACTIONS**

On January 1, 2016, the “Company entered into a three-year Employment Agreement with C. Brian Boutte (the “Boutte Employment Agreement”) to serve as the Company’s Chief Executive Officer. Mr. Boutte will also serve as the Company’s interim Chief Financial Officer. Under the Boutte Employment Agreement, for his service as the Chief Executive Officer of the Company, Mr. Boutte receives an annual base salary of \$265,000 and an annual performance bonus of up to 55% of his base salary, such bonus payable in cash or equity upon attainment of certain performance indicators established by the Company’s Board of Directors and Mr. Boutte. In connection with the entry into the Boutte Employment Agreement, Mr. Boutte received a sign on bonus of \$60,000 and was granted an option award exercisable for 3,000,000 shares of the Company’s common stock, which will vest as to 1,000,000 shares on each of the one, two and three-year anniversary of the commencement of his employment with the Company. In the event of the sale of all of the Company’s assets or any field acquired by the Company during the employment period which sale occurs after the six-month anniversary of his employment and before the two-year anniversary of his termination of employment, the Employment Agreement provides that Mr. Boutte will receive a bonus equal to 3% of net cash proceeds received by the Company from such sale after payment of certain costs and expenses. In the event that Mr. Boutte’s employment is terminated Without Cause (as defined in the Boutte Employment Agreement), by Mr. Boutte for Good Reason (as defined below), Disability (as defined in the Boutte Employment Agreement) or upon his death, if any occur after the one-year anniversary of his employment, Mr. Boutte is entitled to receive a severance payment equal to one year’s base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In the event of a Change of Control (as defined in the Boutte Employment Agreement), Mr. Boutte will receive a severance payment equal to one year’s base salary, any bonus earned which remains unpaid at such time and reimbursement of expenses. In addition, if a Change of Control occurs after the one-year anniversary of the commencement of his employment with the Company, all of Mr. Boutte’s options shall immediately vest. The Boutte Employment Agreement also includes customary confidentiality obligations and inventions assignments by Mr. Boutte as well as a non-compete and non-solicitation provision. If his employment is terminated for Cause (as defined below) or by him Without Good Reason (as defined in the Boutte Employment Agreement), Mr. Boutte is entitled to receive his annual base salary through the date of termination and any bonus earned but unpaid. For purpose of the Boutte Employment Agreement, “Good Reason” is defined as (i) any material and substantial breach of the Boutte Employment Agreement by the Company; (ii) a Change in Control (as defined in the Boutte Employment Agreement) occurs and Mr. Boutte’s employment is terminated at any time within the six (6) month period on or immediately following the Change in Control; (iii) a reduction in Mr. Boutte’s Annual Base Salary as in effect at the time in question, or any other failure by the Company to comply with the compensation terms of the Boutte Employment Agreement; or (iv) the Boutte Employment Agreement is not assumed by a successor to the Company. For purposes of the Boutte Employment Agreement, “Cause” is defined as (i) acts of embezzlement or misappropriation of funds or fraud; (ii) conviction of a felony or other crime involving moral turpitude, dishonesty or theft; (iii) a material violation by Mr. Boutte of any provision of the Boutte Employment Agreement, including willful failure to perform assigned tasks, willful and unauthorized disclosure of Company material confidential information; (iv) being under the influence of drugs (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of Mr. Boutte’s duties and that performance of his duties is affected; (v) engaging in behavior that would constitute grounds for liability for harassment (as proscribed by the U.S.

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

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

**12 RELATED PARTY TRANSACTIONS (continued)**

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

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

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**PROPELL TECHNOLOGIES GROUP, INC.**

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

**13 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 leased a loft space in Houston, Texas from a related party in terms of a lease agreement entered into on September 1, 2015 that expired on May 31, 2016. The lease provided for automatic renewal on a month to month basis unless 60 days' written notice is given to terminate the lease, the requisite notice had been given and the lease terminated on May 31, 2016. The monthly rental was \$3,260 per month.

The Company is committed to investing a further \$300,000 in NENA, over and above the \$900,000 invested in NENA as of June 30, 2016, based on their cash flow needs.

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

The future minimum lease installments under this agreement as of June 30, 2016 to June 30, 2019 is approximately \$118,039.

The future minimum operating lease commitments are as follows:

|      | <b>Amount</b> |
|------|---------------|
| 2016 | \$20,457      |
| 2017 | 37,916        |
| 2018 | 38,504        |
| 2019 | 21,162        |
|      | \$118,039     |

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:

|      | <b>Amount</b> |
|------|---------------|
| 2016 | \$500,000     |
| 2017 | 500,000       |
| 2018 | 500,000       |
| 2019 | 500,000       |
| 2020 | 500,000       |
|      | \$2,500,000   |

#### **14SUBSEQUENT EVENTS**

In accordance with ASC 855-10, the Company has analyzed its operations subsequent to June 30, 2016 to the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements.

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

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

### Overview and Financial Condition

#### Our Company

We intend to be an oil exploitation and production ("E&P") company through the acquisition and growth of a base of producing assets by leveraging M&A and operational expertise, and by using advanced technology to increase their production. On July 6, 2015, we closed the final tranche of our private placement of the sale of our Series C Preferred Stock and raised an additional \$9,750,000, the use of proceeds of which was specified to be for the acquisition, enhancement and maintenance of an oil field. Since the closing of the private placement, we have shifted our operational focus from being a direct provider of well services based upon plasma pulse technology to actively seeking to acquire producing oil fields to generate revenues and the development of untapped hydrocarbon reserves through resource conversion once oil supply/ demand rebalances and prices rebound. As a result, in August 2015, our board of directors and shareholders approved the exclusive sublicense to our majority owned subsidiary Novas Energy North America, LLC ("NENA") of our rights to use certain plasma pulse technology that we had licensed from Novas Energy Group Limited (the "Licensor") pursuant to the terms of an exclusive license agreement (the "License Agreement"), for treatment of vertical wells in the United States (hereafter, the "Licensed Plasma Pulse Technology"). The Licensed Plasma Pulse Technology refers to the process and apparatus of Licensor for its plasma pulse technology as covered by Licensor's patent rights. Although we are indirectly engaged in the oil recovery business through NENA and directly through our treatment of oil wells in Mexico, it is not now our foundational business strategy.

The Company's wholly owned subsidiary, Novas Energy USA, Inc. ("Novas") entered into a sublicense agreement (the "Novas Sublicense Agreement") with NENA and Licensor pursuant to which NENA was granted the right, subject to certain exceptions to be the exclusive provider of the Licensed Plasma Pulse Technology for treatment of vertical wells to third parties in the United States. As such, NENA as the Operator, now has the exclusive right to use the Licensed Plasma Pulse Technology for treatment of vertical wells in the United States. We retained, however, the



right to utilize the Licensed Plasma Pulse Technology to treat wells that we may acquire in the United States. We also have the right to utilize plasma pulse technology not covered by the License Agreement. To date, NENA has treated a total of thirteen wells, three in the USA, one in Colorado and two in Kansas and ten in Alberta, Canada. During the first six months of 2016, NENA treated four wells in the United States utilizing our down-hole tools. In October 2015, Novas entered into an operating agreement with Technovita Technologies USA, Inc. (“Technovita”) (the “Joint Venture Agreement”) through a newly formed Delaware limited liability company, NENA, whereby Novas agreed to contribute \$1,200,000 (\$600,000 to be delivered on the effective date (October 22, 2015) of the Joint Venture Agreement, \$300,000 on November 1, 2015 and \$300,000 on the two month anniversary of the Effective Date) to the capital of NENA for 60% of the membership interests of NENA and Technovita agreed to contribute an aggregate of \$800,000 to the capital of NENA for 40% of the membership interests of NENA. Pursuant to a side agreement entered into on November 18, 2015, the revenue and expenses incurred by Technovita prior to entering into the operating agreement have been included in the joint venture and consolidated into the Company’s results effective September 1, 2015. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the “Technovita Sublicense Agreement”) that was entered into between Technovita, NENA and Licensor, NENA is the exclusive provider of the Licensed Plasma Pulse Technology for treatment of vertical wells to third parties in Canada.

Certain oil recovery technology used by Novas, and sublicensed by NENA, is based on an exclusive, perpetual royalty-bearing license (the "License Agreement") to engage in the commercial application of the Licensed Plasma Pulse Technology entered into on January 30, 2013, as amended in March 2014 and December 23, 2014 with Licensor which granted Novas the right to use the Licensed Plasma Pulse Technology in the United States and Mexico to enhance oil production. The License Agreement provides Novas with the right to practice the licensed process and to utilize the Licensed Plasma Pulse Technology to provide services to third parties and for ourselves as well, and to sublicense the Licensed Plasma Pulse Technology in the United States.

On July 19, 2016, we received a notice from Licensor purporting to effectively terminate the License Agreement for non-payment of required royalties, asserting, among other things, that as of June 30, 2016, Novas owed Licensor a *pro rata* amount of \$1,458,333 for the Licensed Plasma Pulse Technology for the United States and Mexico, of which \$1,000,000 was alleged to be in arrears. Licensor has since reiterated its demands, particularly as to its demands related to Mexico. We and Novas believe that there is no legal basis for Licensor to terminate the License Agreement and intend to vigorously defend against any attempt by Licensor to enforce a termination of the License Agreement. Further, we believe that Licensor has failed to materially perform its obligations under the License Agreement, and we believe that such failures on Licensor's part may impact what, if any, payments are due under the License Agreement by Novas to Licensor.

We and Novas believe that it is evident from the plain language of the Sublicense Agreement, and the fact that we transferred to NENA substantially all of its rights for the use of Licensed Plasma Pulse Technology in the United States of America, that the Sublicense Agreement replaced and superseded the royalty fees due under the License Agreement for the use of the Licensed Plasma Pulse Technology in the Licensed Territory.

In 2013, we closed a 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. Novas had entered into a license for use of the Licensed Plasma Pulse Technology licensed from Licensor for use in the United States and Mexico. Prior to the closing of the second tranche of the Series C Preferred Stock private placement and the sublicense with NENA, our focus had been on the provision of production enhancement services. We have not concluded any further agreements under this joint venture model other than in Mexico where we intend to treat 15 wells through our partner Pozotech utilizing a plasma pulse technology. We anticipate deriving approximately \$375,000 in revenue from the treatment of the 15 wells.

To date, we derived \$496,962 in revenue from our oil enhancement business. We have financed our operations primarily from sales of our securities, both debt and equity, and to a lesser extent revenue from operations and we expect to continue to obtain required capital in a similar manner. We have incurred an accumulated deficit of \$16,152,295 through June 30, 2016 and there can be no assurance that we will be able to achieve profitability.

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

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statement as of June 30, 2016 and 2015, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

## **Results of Operations for the three months ended June 30, 2016 and June 30, 2015**

### **Net revenues**

Net revenues were \$65,531 and \$8,500 for the three months ended June 30, 2016 and 2015 respectively, an increase of \$57,031 or 671.0%. All of the revenue during the quarter has been derived from the NENA joint venture in which we have a 60% share. In the prior year we had derived \$8,500 of revenue from the treatment of well by Novas, our wholly owned subsidiary. Due to the current market conditions in the oil industry, our ability to generate significant revenues remains very limited.

### **Cost of goods sold**

Cost of goods sold was \$16,887 and \$42,147 for the three months ended June 30, 2016 and 2015, respectively, a decrease of \$25,260 or 59.9%. Cost of goods sold during the current year, primarily represents treatment costs incurred by NENA in treating wells in Canada and the USA. Several of the wells that were treated did not generate revenue. In the prior year the cost of sales consisted primarily of engineering services provided by third party contractors and a provision for royalty expense on wells treated by Novas.

### **Gross profit (loss)**

Gross profit (loss) was \$48,644 and \$(33,647) for the three months ended June 30, 2016 and 2015, respectively, an increase of \$82,291, primarily due to the treatment of several wells under the NENA joint venture. In the prior year, the cost of sales included engineering costs incurred on wells treated for no revenues.

### **Total expenses**

Total expenses were \$1,009,465 and \$781,067 for the three months ended June 30, 2016 and 2015, respectively, an increase of \$228,398 or 29.2%. Total expenses consisted primarily of the following:

Professional fees were \$98,806 and \$226,333 for the three months ended June 30, 2016 and 2015, respectively, a decrease of \$127,527 or 56.3%. The decrease is primarily due to a decrease in; i) legal fees of \$110,050 due to non-recurring work performed on the joint venture agreements by our legal counsel; ii) a decrease in once-off patent legal costs of \$17,193 during the three months ended June 30, 2015 related to patenting the Licensed Plasma Pulse Technology in the USA.

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Business development expenditure totaled \$15,671 and \$0 for the three months ended June 30, 2016. The business development expenditure relates to the treatment of several wells by NENA as a marketing tool to prove NENA's abilities, in an effort to generate a sustainable revenue stream.

Consulting fees totaled \$374,472 and \$125,280 for the three months ended June 30, 2016 and 2015, respectively, an increase of \$249,192 or 198.9%. The increase is primarily due to consulting and contracting fees incurred by NENA. The NENA joint venture has only been operational since the third quarter of the prior year.

General and administrative expenditure was \$956,390 and \$773,568 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$182,822 or 23.6%. This increase is primarily due to the following; i) an increase in payroll expenses of \$322,294 due to payroll expenses of \$103,180 incurred by NENA, a once off signing bonus of \$60,000 paid to our new CEO and an increase in salary expenditure, including benefits expenditure, due to the employment of our new CEO in January 2016 and a COO in March 2016, previously we did not have a COO function; ii) an increase in investor relations expenditure of \$73,785 due to a new contract entered into with an investor relations firm which required an upfront payment and a monthly fee; iii) an increase in insurance expenditure of \$40,013 due to an increase in the level of D&O coverage; iv) an increase in building rental expense of \$23,091 due to rental expense incurred by NENA and an increase in the rental expense incurred for an apartment leased for John Huemoeller, which terminated on May 31, 2016; v) an increase in equipment rental expense of \$27,071 due to equipment leased by NENA to treat wells; vi) an increase in franchise taxes paid to the State of Delaware based on the number of shares outstanding, which number had increased due to the issuance of the additional 4,500,000 preferred shares in the prior year and the issuance of 13,000,000 restricted common stock to two directors offset by a decrease in stock based compensation expense which was \$42,895 and \$482,572 for the six months ended June 30, 2016 and 2015, respectively, a decrease of \$439,677. The current year stock based compensation consists of a charge for stock options issued to our CEO and COO during the current quarter. The prior year stock based compensation consists of a charge of \$482,572 for restricted stock issued to our former Chief Executive Officer, John Huemoeller and one of our directors, John Zotos. The charge for restricted stock was fully amortized at December 31, 2015.

Depreciation and amortization expense was \$34,996 and 36,883 for the three months ended June 30, 2016 and 2015, respectively, a decrease of \$1,887 or 5.1%. This decrease is primarily due to fixed assets that were fully depreciated during the prior year and have subsequently been scrapped.

### **Other (expense) income**

Other (expense) was \$(763) and \$0 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$763 was primarily due to a loss on fixed assets which were stolen of \$1,248 offset by other income of \$496.

### **Net loss**

We incurred a net loss of \$960,511 and \$814,714 for the three months ended June 30, 2016 and 2015, an increase of \$145,797 or 17.9%, respectively and which consists of the various items discussed above.

### **Deemed preferred stock dividend**

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

### **Undeclared Series B and Series C Preferred stock dividends**

A deemed preferred stock dividend of \$156,071 and \$62,586 has been disclosed for the three months ended June 30, 2016 and 2015, respectively. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders for the three months ended June 30, 2016 and 2015.

## **Results of Operations for the six months ended June 30, 2016 and June 30, 2015**

### **Net revenues**

Net revenues were \$147,768 and \$91,000 for the six months ended June 30, 2016 and 2015 respectively, an increase of \$56,768 or 62.4%. All of the revenue during the quarter has been derived from the NENA joint venture in which we have a 60% share. In the prior year we had derived \$91,000 of revenue from the treatment of well by Novas, our wholly owned subsidiary. Due to the current market conditions in the oil industry, our ability to generate significant revenues remains very limited.

### **Cost of goods sold**

Cost of goods sold was \$126,934 and \$99,970 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$26,964 or 27.0%. Cost of goods sold during the current year, primarily represents treatment costs incurred by NENA in treating wells in Canada and the USA. Several of the wells that were treated did not generate revenue. In the prior year the cost of sales in the prior year consisted primarily of engineering services provided by third party contractors and a provision for royalty expense on wells treated by Novas.

**Gross profit (loss)**

Gross profit (loss) was \$20,834 and \$(8,970) for the six months ended June 30, 2016 and 2015, respectively, an increase of \$29,834, primarily due to revenue generated under the NENA joint venture.

**Total expenses**

Total expenses were \$2,229,313 and \$1,447,306 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$782,007 or 54.0%. Total expenses consisted primarily of the following:

Professional fees were \$206,480 and \$382,064 for the six months ended June 30, 2016 and 2015, respectively, a decrease of \$175,584 or 46.0%. The decrease is primarily due to a decrease in; i) legal fees of \$175,070 due to non-recurring work performed on the joint venture agreements by our legal counsel; ii) a decrease in once-off patent legal costs of \$28,326 incurred during the six months ended June 30, 2015 relating to patenting the Licensed Plasma Pulse Technology in the USA, and iii) offset by an increase in other professional fees of \$21,070 primarily due to an increase in audit fees and other accounting fees incurred on the NENA joint venture.

Business development expenditure totaled \$164,422 and \$0 for the six months ended June 30, 2016. The business development expenditure relates to the treatment of several wells by NENA as a marketing tool to prove NENA's abilities, in an effort to generate a sustainable revenue stream.

Consulting fees totaled \$815,291 and \$219,667 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$595,624 or 271.1%. The increase is primarily due to consulting and contracting fees incurred in NENA. The NENA joint venture has only been operational since the third quarter of the prior year.

General and administrative expenditure was \$956,390 and \$773,568 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$182,822 or 23.6%. This increase is primarily due to the following; i) an increase in payroll expenses of \$322,294 due to payroll expenses of \$103,180 incurred by NENA, a once off signing bonus of \$60,000 paid to our new CEO and an increase in salary expenditure, including benefits expenditure, due to the employment of our new CEO in January 2016 and a COO in March 2016, previously we did not have a COO function; ii) an increase in investor relations expenditure of \$73,785 due to a new contract entered into with an investor relations firm which required an upfront payment and a monthly fee; iii) an increase in insurance expenditure of \$40,013 due to an increase in the level of D&O coverage; iv) an increase in building rental expense of \$23,091 due to rental expense incurred by NENA and an increase in the rental expense incurred for an apartment leased for John Huemoeller, which terminated on May 31, 2016; v) an increase in equipment rental expense of \$27,071 due to equipment leased by NENA to treat wells; vi) an increase in franchise taxes paid to the State of Delaware based on the number of shares outstanding, which number had increased due to the issuance of the additional 4,500,000 preferred shares in the prior year and the issuance of 13,000,000 restricted common stock to two directors offset by a decrease in stock based compensation expense which was \$42,895 and \$482,572 for the six months ended June 30, 2016 and 2015, respectively, a decrease of \$439,677. The current year stock based compensation consists of a charge for stock options issued to our CEO and COO during the current quarter. The prior year stock based compensation consists of a charge of \$482,572 for restricted stock issued to our former Chief Executive Officer, John Huemoeller and one of our directors, John Zotos. The charge for restricted stock was fully amortized at December 31, 2015.

Depreciation and amortization expense was \$69,084 and 69,316 for the six months ended June 30, 2016 and 2015, respectively, a decrease of \$232 or 0.3%. This decrease is primarily due to certain assets becoming fully depreciated in the prior year.

#### **Other (expense) income**

Other income was \$199,248 and \$0 for the six months ended June 30, 2016 and 2015, respectively, an increase of \$199,248 was primarily due to the forgiveness of the once off license fee for the Mexican market of \$200,000, which was due in June 2015.

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

Amortization of debt discount and finance costs was \$0 and \$53,100 for the six months ended June 30, 2016 and 2015, respectively. All debt was repaid during the first quarter of the prior year, all interest due was repaid and the remaining debt discount was fully amortized.



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

The change in fair value of derivative liabilities was \$0 and \$18,455 for the six months ended June 30, 2016 and 2015 respectively, a decrease of \$18,455. In the prior year the derivative liability movement reflected the mark-to-market of equities issued to short-term note holders who converted their debt to equity at deeply discounted prices based on variable priced conversion rates which was offset by a mark-to-market credits on the remaining short-term convertible notes.

### **Net loss**

We incurred a net loss of \$2,008,158 and \$1,490,921 for the six months ended June 30, 2016 and 2015, an increase of \$517,237 or 34.7%, respectively and which consists of the various items discussed above.

### **Net loss attributable to non-controlling interest**

The net loss attributable to non-controlling interest represents the remaining interest of Technovita in the joint venture. Technovita owns 40% of the joint venture. The remaining investment was reduced to zero during the six months ended June 30, 2016.

### **Deemed preferred stock dividend**

A deemed preferred stock dividend of \$0 and \$2,456,781 has been disclosed in the statement of operations for the six months ended June 30, 2016 and 2015, 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 are convertible into common stock at an exercise price of \$0.12291665 per share.

### **Undeclared Series B and Series C Preferred stock dividends**

A deemed preferred stock dividend of \$312,142 and \$145,161 has been disclosed for the six months ended June 30, 2016 and 2015, respectively. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders for the three months ended June 30, 2016 and 2015.

### **Liquidity and Capital Resources.**

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

We have spent \$171,502 on plant and equipment for the six months ended June 30, 2016, primarily on new down hole tools acquired.

We have incurred an accumulated deficit of \$16,152,293 through June 30, 2016 and incurred negative cash flow from operations of \$1,598,200 for the six months ended June 30, 2016. We have spent, and need to continue to spend, substantial amounts in connection with implementing our new business strategy.

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

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

|      | <b>Amount</b> |
|------|---------------|
| 2016 | \$ 500,000    |
| 2017 | 500,000       |
| 2018 | 500,000       |
| 2019 | 500,000       |
| 2020 | 500,000       |
|      | \$2,500,000   |

### **Off Balance Sheet Arrangements**

There are no off balance sheet arrangements.

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

None.

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

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

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”), who also serves as our principal financial and accounting officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO who also serves as our principal financial and accounting officer concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company’s disclosure controls and procedures as of June 30, 2016 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO, as appropriate, to allow timely decisions regarding required disclosure. The Company intends to retain additional individuals to remedy the ineffective controls. We have begun to take actions that we believe will substantially remediate the material weaknesses identified. In response to the identification of our material weaknesses, we are in the process of expanding our finance and accounting staff. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

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

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

*The following discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q, and our audited consolidated financial statements and notes thereto for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the SEC on March 30, 2016. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. See “Note Regarding Forward-Looking Statements” for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results and the timing of events could differ materially from those discussed in our forward-looking statements as a result of many factors, including those set forth below, under Part II, Item 1A. “Risk Factors” and elsewhere herein, and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016.*

#### Risks Relating to Our Company

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

We have recently engaged in a new business line involving plasma pulse technology, including utilizing the Licensed Plasma Pulse Technology. We have also recently switched our business model with our entry into a Joint Venture Agreement with Technovita. There is a risk that the joint venture will be unable to successfully operate this new line of business or be able to successfully integrate it with Technovita’s management and structure. To date, the joint venture has generated minimal revenue. The joint venture estimates of capital, personnel and equipment required for our new line of business are based on the experience of management and businesses they are familiar with. The joint venture management has limited direct experience in this new line of business. The joint venture is subject to the risks such as their ability to implement their business plan, market acceptance of the proposed business and services, under-capitalization, cash shortages, limitations with respect to personnel, financing and other resources, competition from better funded and experienced companies, and uncertainty of their ability to generate revenues. There is no

assurance that the joint venture activities will be successful or will result in any revenues or profit, and the likelihood of their success must be considered in light of the stage of development. To date, we have derived minimal revenue from the joint venture. Even if the joint venture generates revenue, there can be no assurance that it will be profitable. In addition, no assurance can be given that the joint venture will be able to consummate its business strategy and plans, as described herein, or that financial, technological, market, or other limitations may force the joint venture to modify, alter, significantly delay, or significantly impede the implementation of such plans. The joint venture has insufficient results for investors to use to identify historical trends or even to make quarter-to-quarter comparisons of its operating results. You should consider our prospects in light of the risk, expenses and difficulties we will encounter as an early stage company. Our revenue and income potential is unproven and our business model is continually evolving. We are subject to the risks inherent to the operation of a new business enterprise, and cannot assure you that we will be able to successfully address these risks.

***We currently have limited revenues from the Licensed 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 the Licensed Plasma Pulse Technology. To date, we have derived limited revenue from the joint venture. During the first six months of 2016, the joint venture has treated four wells using our down-hole tools. The majority of the wells that were treated were treated as sample wells to demonstrate the ability of plasma pulse technology at no cost to the well owner. Therefore, there can be no assurance that well owners will determine that the price to be paid by the joint venture customers for their services, whether in the form of a cash payment or profit sharing arrangement, will be deemed to be reasonable and that customers will be willing to pay such prices.

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

We expect to incur operating losses for the foreseeable future. For the six months ended June 30, 2016 and for the twelve months ended December 31, 2015, respectively, we had net revenues of \$147,768 and \$91,000 from our plasma pulse oil recovery business. For the six months ended June 30, 2016 we have sustained a net loss of \$2,008,158 and for the years ended December 31, 2015 and 2014, we sustained a net loss of \$4,331,980 and \$5,018,483, respectively. To date, we have not generated significant revenue from the Licensed Plasma Pulse Technology and NENA has not generated any significant revenues from the Licensed Plasma Pulse Technology. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business and our recent changes in business strategy.

***Although we believe the Licensor does not have the right to terminate the License Agreement, if the Licensor is successful in its claims, the result could have material adverse outcomes.***

On July 19, 2016, we received a notice from Licensor purporting to effectively terminate the License Agreement for non-payment of required royalties, asserting, among other things, that as of June 30, 2016, Novas owed Licensor a ***pro rata*** amount of \$1,458,333 for the Licensed Plasma Pulse Technology for the United States and Mexico, of which \$1,000,000 was alleged to be in arrears. Licensor has since reiterated its demands, particularly as to its demands related to Mexico. We and Novas believe that there is no legal basis for Licensor to terminate the License Agreement and intend to vigorously defend against any attempt by Licensor to enforce a termination of the License Agreement. Further, we believe that Licensor has failed to materially perform its obligations under the License Agreement, and that such failures on Licensor's part may impact what, if any, payments are due under the License Agreement by Novas to Licensor.

We and Novas believe that it is evident from the plain language of the Sublicense Agreement, and the fact that we transferred to NENA substantially all of its rights for the use of the Licensed Plasma Pulse Technology in the United States of America, that the Sublicense Agreement replaced and superseded the royalty fees due under the License Agreement for the use of the Licensed Plasma Pulse Technology in the Licensed Territory.

As our sole source of income at this time is through NENA, and the majority of NENA's revenue has been derived from the Sublicense Agreement with Novas, the termination of the License Agreement or loss of the United States as a Licensed Territory could have a material adverse effect on our business.

***We rely on a license to use the Licensed Plasma Pulse Technology that is material to our business and if the agreement were to be terminated, it could have an immediate material adverse effect on our business, operating results and financial condition.***

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

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

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

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

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

*The joint venture may not be able to service customers with the tools that are available to it.*

The joint venture's ability to continue to service customers and expand its business is dependent upon it acquiring additional apparatuses to be utilized with plasma pulse technology. The joint venture has previously used our six down-hole tools to treat wells as well as those obtained from the Licensor. However, we have not entered into a licensing agreement with the joint venture for the use of our tools and until such time as a licensing arrangement is concluded, our tools will not be available for use by the joint venture. In addition, even if we should enter into a licensing agreement with the joint venture, we have a limited number of tools available for use. If the tools should require repair the joint venture may be unable to service customers. In addition, with only six tools, the joint venture can only treat a limited number of wells at a time and are unable to treat wells on days when the tools are in transit from one customer's well to another well.

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

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



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

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

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

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

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

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

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

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

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

- the level of supply and demand for oil and natural gas, especially demand for natural gas in the United States;

· governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;

· weather conditions and natural disasters;

· worldwide political, military, and economic conditions;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We intend to become an exploitation and production stage company.***

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

To date, we have not successfully acquired any fields. Our acquisition of a field is dependent upon market conditions and pricing. The competition for the acquisition of fields is intense. There can be no assurance that we will be able to acquire a suitable field with our existing resources.

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

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

- well blowouts, cratering, explosions and human related accidents
  
- mechanical, equipment and pipe failures
  
- adverse weather conditions and natural disasters
  
- civil disturbances and terrorist activities
  
- oil and natural gas price reductions
  
- environmental risks stemming from the use, production, handling and disposal of water, waste materials, hydrocarbons and other substances into the air, soil or water title problems
  
- limited availability of financing
  
- marketing related infrastructure, transportation and processing limitations
  
- regulatory compliance issues

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

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



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

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

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

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

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

***Our operations will be subject to permitting requirements.***

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

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

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

- multiple, conflicting and changing laws and regulations such as tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;
- failure by us or NENA to obtain regulatory approvals for the sale or use of our technology in various countries;
- difficulties in managing foreign operations;
- financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;
- reduced protection for intellectual property rights;
- natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and
- failure to comply with the Foreign Corrupt Practices Act, including its books and records provisions and its anti-bribery provisions, by maintaining accurate information and control over activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for the six months ended June 30, 2016**

None.

**Item 3. Defaults upon senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| <b>Regulation Number</b> | <b>Exhibit</b>  |
|--------------------------|---|
| 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 15, 2016

(Registrant)

By: */s/C Brian Boutte*

C Brian Boutte, President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)