Propell Corporation.
Form 10-Q
May 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

[mark one]

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

For the quarterly period ended: March 31, 2009

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

For the transition period from _________ to ___________

Commission File Number 333-139354

PROPELL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices including zip code)

(415) 747-8775

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

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

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 o No o

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

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 o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

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

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PROPELL CORPORATION

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PROPELL CORPORATION

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2009 and DECEMBER 31, 2008

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

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

See notes to accompanying financial statements.

PROPELL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

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

See notes to accompanying financial statements.

PROPELL CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)

AS OF MARCH 31, 2009

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

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

See notes to accompanying financial statements.

PROPELL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2009 and 2008

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

Supplemental Cash Flow Information:		
Cash paid for interest	$ 0	$ 0
Cash paid for income taxes	$ 0	$ 0

See notes to accompanying financial statements.

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

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

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

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

Propell does not have voting control of Crystal Magic, Inc. See note 16 – *Subsequent Events* – for additional information which impacts this control issue. Auleron 2005 LLC's operations have been temporarily discontinued. See Note 6 – *Investments in Unconsolidated Entities* – for additional information as to how the investments in these two companies are accounted for in the attached financials statements.

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

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

Property and Equipment

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

Inventory

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

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Compensated Absences

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

Use of Estimates

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

Recent Accounting Pronouncements

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

Impairment of Long-Lived Assets

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

Revenue Recognition

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

Principles of Consolidation

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

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Affiliates and Unconsolidated Entities

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

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

See Notes 6 and 14.

NOTE 2 – LEASES

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

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

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

Period Through		Amount
February 28, 2010	$	33,838
Total	$	33,838

NOTE 3 – PROPERTY AND EQUIPMENT

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

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

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

NOTE 4 – PREPAID EXPENSES

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

Prepaid insurance		1,577
	$	1,577

NOTE 5 – DISTRIBUTIONS TO AFFILIATE

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

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 6 – INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

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

See Notes 1 and 14.

NOTE 7 – ACCRUED EXPENSES AND TAXES

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

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

NOTE 8 – OTHER EXPENSE

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

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

NOTE 9 – NOTES PAYABLE

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

NOTE 10 – CONVERTIBLE NOTES PAYABLE

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

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

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 11 – INCOME TAXES

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

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

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

NOTE 12 – STOCKHOLDERS' EQUITY

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

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

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

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

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

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

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

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash Financing Transactions

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

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

PROPELL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

NOTE 15 – GOING CONCERN

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

Management continues to seek funding to pursue its business plans.

NOTE 16 – SUBSEQUENT EVENTS

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

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

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

This discussion and analysis should be read in conjunction with the accompanying Financial Statements and related notes. Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined below in ''Critical Accounting Policies,'' and have not changed significantly.

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

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

General

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

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

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

Overview

Propell Corporation is a Delaware corporation and was originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (CMI) merged with an acquisition