Propell Corporation.
Form 10-Q
May 11, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 – Q

[mark one]

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

For the quarterly period ended: March 31, 2011

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 000-53488

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)**

305 San Anselmo Avenue, Suite 300, San Anselmo, CA 94960

(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 ý 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 ý

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 ý

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 22,757,575 shares of common stock, $.001 par value per share, as of May 11, 2011.

PROPELL CORPORATION

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PART I. FINANCIAL INFORMATION

Propell Corporation and Subsidiaries

Consolidated Balance Sheets

As of March 31, 2011 and December 31, 2010

(Unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash	$ 21,905	$ 56,639
Accounts receivable (net of allowances)	4,380	4,590
Prepaid expenses	4,273	5,053
Due from others	1,937	1,360
Inventory	924	521
Deposits - current	1,848	1,499
Total Current Assets	35,267	69,662
Property and Equipment, net	1,149	1,772
Other Assets		
Website URL, net	3,600	4,000
Total Other Assets	3,600	4,000
Total Assets	$ **40,016**	$ **75,434**
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable	$ 234,142	$ 185,758
Accrued liabilities	34,434	34,124
Accrued interest related parties	178,619	138,879
Notes payable related parties	303,000	203,000
Convertible notes payable related party	1,092,500	1,067,500
Liabilities from Discontinued Operations	1,221,008	1,221,008
Total Liabilities	3,063,703	2,850,269
Stockholders' Deficit		
Common stock, $0.001 par value; 100,000,000 shares authorized, 22,757,575 issued and outstanding; (22,757,575 issued and outstanding 2010)	22,757	22,757
Additional paid-in capital	1,764,580	1,762,059
Accumulated deficit	(4,811,024)	(4,559,651)

Total Stockholders' Deficit		(3,023,687)		(2,774,835)
Total Liabilities and Stockholders' Deficit	**$**	**40,016**	**$**	**75,434**

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	For the three months ended March 31, 2011		For the three months ended March 31, 2010	
Net Revenues	$	23,715	$	11,217
Cost of Goods Sold		17,111		8,118
Gross Profit (Loss)		6,604		3,099
Operating Expenses		257,977		278,084
Loss from Continuing Operations		(251,373)		(274,985)
Gain from Discontinued Operations		-		10,171
Net Loss	$	(251,373)	$	(264,814)
Net Loss Per Share - Basic and Diluted	$	(0.01)	$	(0.01)
Weighted Average Number of Shares Outstanding - Basic and Diluted		22,757,575		22,482,575

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Consolidated Statements of Stockholders' Deficit

As of March 31, 2011

(Unaudited)

	Common Stock $0.001 Par Value Shares	Amount	Additional Paid-in Capital	Distributions to Affiliates	Accumulated Deficit	Total Stockholders' Deficit
Balance, December 31, 2008	9,908,952	$ 9,909	$ 457,723	$ (938,664)	$ (1,107,257)	$ (1,578,289)
Recognition of stock based compensation in connection with stock option grants			43,440			43,440
Recognition of shares issued in connection with services rendered	856,667	857	285,793			286,650
Conversion of convertible notes into common stock	8,650,000	8,650	1,763,014			1,771,664
Issuance of common stock in rights offering	3,066,956	3,066	825,012			828,078
Distributions to affiliate				(122,542)		(122,542)
Reclassification of affiliate distributions as a result of change in control				1,061,206		1,061,206
Reclassification of affiliate equity and payables due to change in control			(1,680,368)			(1,680,368)
Net loss for the year ended December 31, 2009					(1,781,945)	(1,781,945)
Balance, December 31, 2009	22,482,575	22,482	1,694,614	-	(2,889,202)	(1,172,106)
Shares issued in connection with services rendered	275,000	275	43,725			44,000
Recognition of stock based compensation in connection with stock option grants			23,720			23,720
Net loss for the year ended December 31, 2010					(1,670,449)	(1,670,449)
	22,757,575	22,757	1,762,059	-	(4,559,651)	(2,774,835)

Balance, December 31, 2010						
Recognition of stock based compensation in connection with stock option grants			2,521			2,521
Net loss for the three months ended March 31, 2011					(251,373)	(251,373)
Balance, March 31, 2011	22,757,575	$ 22,757	$ 1,764,580	$	$ (4,811,024)	$ (3,023,687)

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the Three months ended March 31, 2011 and 2010

(Unaudited)

	For the three months ended June 30, 2011	2010
Cash Flows From Operating Activities:		
Net loss for the period	$ (251,373)	$ (264,814)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	623	550
Amortization	400	25,460
Issuance of stock options in connection with employment services	2,521	1,019
Changes in Assets and Liabilities		
Accounts receivable	210	(1,601)
Due from others	(577)	-
Deposits	(349)	-
Prepaid expenses	780	1,401
Inventory	(403)	-
Accounts payable	48,384	(4,196)
Accrued liabilities	310	13,835
Accrued interest related parties	39,740	19,045
Cash Used In Operating Activities from Continuing Operations	(159,734)	(209,301)
Cash Provided by (Used In) Operating Activities from Discontinued Operations	-	(25,571)
NET CASH USED IN OPERATING ACTIVITIES	(159,734)	(234,872)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of website asset	-	-
Net Cash Provided By (Used In) Investing Activities from Continuing Operations	-	-
Net Cash Provided By (Used In) Investing Activities from Discontinued Operations	-	-
NET CASH USED IN INVESTING OPERATIONS	-	-
Cash Flows From Financing Activities:		
Proceeds from notes payable	100,000	-
Proceeds from convertible note related party	25,000	375,000
Net Cash Provided by Financing Activities from Continuing Operations	125,000	375,000
Net Cash Provided by Financing Activities from Discontinued Operations	-	-

NET CASH PROVIDED BY FINANCING ACTIVITIES		125,000		375,000
Net increase (decrease) in cash and cash equivalents		(34,734)		140,128
Cash and cash equivalents at beginning of period		56,639		95,484
Cash and cash equivalents at end of period	**$**	**21,905**	**$**	**235,612**
Supplemental Cash Flow Information:				
Cash paid for interest	$	0	$	0
Cash paid for income taxes	$	1,600	$	0

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

Note 1 - Organization and Summary of Significant Accounting Policies

(A) Description of the Business

Propell Corporation, a Delaware corporation (Propell or the Company) is an e-commerce and fulfillment provider of image-based personalized products and services.

(B) Basis of Presentation & Principles of Consolidation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full year.

The unaudited interim financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010, which contains the audited financial statements and notes thereto, together with the Management s Discussion and Analysis of Financial Condition and Results of Operation, for the period ended December 31, 2010. The interim results for the period ended March 31, 2011 are not necessarily indicative of results for the full fiscal year.

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

(C) Use of Estimates

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

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

(D) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Revisions to the allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense. Receivables deemed uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. There were no recoveries during the three months ended March 31, 2011.

(E) Revenue Recognition

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

The Company primarily recognizes revenue for services rendered upon completion of the order.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

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

(F) Risks and Uncertainties

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

(G) 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 March 31, 2011 and December 31, 2010, 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 March 31, 2011 and December 31, 2010, the balance exceeded the federally insured limit by $0 and $0, respectively.

(H) Property and Equipment

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

Description	**Estimated Useful Life**
Office equipment and furniture	2 to 5 years

Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease

(I) Inventory

Inventory is stated at cost using the FIFO (first in, first out) method.

(J) Long Lived Assets

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

(K) Net Loss per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) less preferred dividends for the period by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) less preferred dividends by the weighted average number of common shares outstanding including the effect of share equivalents. The Company s share equivalents consist of 1,974,000 stock options and 4,600,434 warrants. Since the Company reported a net loss for the three months ended March 31, 2011 and the year ended December 31, 2010, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

(L) Fair Value of Financial Instruments

The carrying amounts of the Company s short-term financial instruments, (including accounts receivable, accounts payable and accrued liabilities) approximate fair value due to the relatively short period to maturity for these instruments.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

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

(M) Share-Based Payment Arrangements

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

(N) Recent Accounting Pronouncements

In April 2009, the FASB issued guidance now codified as FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* which amends previous guidance to require disclosures about fair value of financial instruments in interim as well as annual financial statements in the current economic environment. This pronouncement was effective for periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on our business, financial condition or results of operations; however, these provisions of FASB ASC Topic 820 resulted in additional disclosures with respect to the fair value of our financial instruments.

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, *Subsequent Events*, which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement was effective for interim or fiscal periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on our business, results of operations or financial position; however, the provisions of FASB ASC Topic 855 resulted in additional disclosures with respect to subsequent events.

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now codified as FASB Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, as the single source of authoritative non-governmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative.

(N) Recent Accounting Pronouncements (continued)

These provisions of FASB ASC Topic 105 were effective for interim and annual periods ending after September 15, 2009 and, accordingly, were effective for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on our business, financial condition or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of FASB ASC Topic 105, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update became effective for the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective for the interim and annual reporting period beginning January 1, 2011. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update does not have a material effect on our consolidated financial statements.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

Note 2 - Property and Equipment

Property and Equipment consisted of the following at March 31, 2011 and December 31, 2010.

		March 31, 2011		December 31, 2010
Furniture and fixtures	$	500	$	500
Computer and equipment		4,486		4,486
Total		4,986		4,986
Less accumulated depreciation/amortization		(3,837)		(3,214)
Property and equipment, net	$	1,149	$	1,772

Note 3 - Prepaid Expenses

Prepaid expenses consisted of the following at March 31, 2011 and December 31, 2010.

		March 31, 2011		December 31, 2010
Prepaid insurance	$	3,537	$	5,053
Prepayments on inventory		736		-
Prepaid expenses	$	4,273	$	5,053

Note 4 - Inventory

At March 31, 2011 and December 31, 2010 inventory of $924 and $521, respectively, consisted of customized product which was complete but had not yet shipped to customers for specific orders.

Note 5 Accrued Liabilities

At March 31, 2011 and December 31, 2010 accrued expenses and taxes consisted of the following:

	March 31, 2011	December 31, 2010
Payroll	$ 27,167	$ 27,167
Taxes	584	632
Deferred revenue	2,359	-
Other	4,324	6,325
Total	$ 34,434	$ 34,124

Note 6 - Notes and Convertible Notes Payable

In 2009 and 2010 the Company borrowed $1,067,500 under the terms of a convertible note payable. During the three months ended March 31, 2011 the Company borrowed an additional $25,000 on the same note. This note is convertible to shares of the Company s common stock at the lenders option at the lower of $0.27 per share or a twenty-five percent (25%) discount from the next issuance of common stock by the Company. The original note was due on February 28, 2010. In March 2010, the note was amended to change the due date to June 30, 2010 and the maximum amount of the Note was increased to $1 Million. In July, 2010, the Note holder notified the Company of its intention to convert the Note, upon the Company completing a financing of at least $1.5 million. In February 2011, the Note was amended to increase the maximum amount to $2.0 million and to change the due date to August 31, 2011 and to allow the Company the option to convert the Note once it has raised $500,000 in new equity.

In June 2010, the Company borrowed $100,000 under a one year unsecured note from a shareholder. Interest accrues on the note at the rate of 8% per annum. The note has no financial covenants. In December 2010, the shareholder lent us an additional $100,000 under similar terms, except that the interest rate on this note is 12% per annum, with a due date of December 15, 2011. On February 10, 2011, the shareholder lent us an additional $100,000 which is due February 10, 2012. This loan accrues interest at the rate of 12% per annum and has no financial covenants.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

Note 7 Notes Payable Discontinued Operations

The Company s Crystal Magic subsidiary has four (4) notes all of which are either guaranteed or funded by the United States Small Business Administration (SBA). At March 31, 2011, the notes total an aggregate of approximately $838,542. Crystal Magic is in default on all of these notes. In September 2010, the bank managing the loans for the SBA seized substantially all of the assets of CMI and subsequently sold these assets.

Note 8 - Stockholders Deficit

(A) Common Stock Issuances of Issuer

For the three months ended March 31, 2011

No shares were issued.

(B) Stock Option Plan

In 2008 the Company s Board of Directors approved the Company s 2008 Stock Option Plan (the Stock Plan) for the issuance of up to five (5) million shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The exercise price of stock options under the Stock Plan is determined by the compensation committee of the Board of Directors, and may be equal to or greater than the fair market value of the Company s common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. At both March 31, 2011 and December 31, 2010, there were 1,974,000 and 1,499,000 options issued and outstanding under the Stock Plan.

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

The Company has applied fair value accounting for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. No shares were issued during the quarter ended March 31, 2011 to employees and consultants.

The Company records stock based compensation based upon the stated vested provisions in the related agreements, with recognition of expense recorded on the straight line basis over the term of the related agreement. The vesting provisions for these agreements have various terms as follows:

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Annually over one, two or three years

.

Monthly over one year

.

Immediately upon grant

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2011

(Unaudited)

Note 8 - Stockholders Deficit (continued)

During 2010, the Company granted 675,000 options to employees and consultants having a fair value of $80,265 based upon the Black-Scholes option pricing model.

		Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance	December 31, 2009	1,499,000		0.40		
Granted		675,000	$	0.25		
Exercised		0		-		
Forfeited		200,000	$	0.43		
Balance	December 31, 2010	1,974,000		0.40		
Granted		0	$	0.25		
Exercised		0		-		
Forfeited		0	$	0.43		
Balance	March 31, 2011 - outstanding	1,974,000		0.37	7.78 years	0
Balance	March 31, 2011 exercisable	1,051,083	$	0.40	7.63 years	0

Note 9 Subsequent Event

The Company has evaluated for subsequent events between the balance sheet date of March 31, 2011 and May 8, 2011, the date the financial statements were issued.

In the period from April 1, 2011 through May 8, 2011, the Company has received an additional $50,000 under the convertible note payable.

Note 10 - Going Concern

The Company has negative working capital, has incurred operating losses since inception, and its operating activities to date have required financing from outside institutions and related parties. The accompanying 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.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the notes hereto and our audited financial statements and notes thereto for the fiscal year ended December 31, 2010. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as anticipate, believe, intends, or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our financial statements and notes for the fiscal year ended December 31, 2010.

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, 2011 and March 31, 2010, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined below in Critical Accounting Policies.

FORWARD LOOKING STATEMENTS

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

Company Overview

Propell Corporation is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (CMI), a Florida Corporation, merged with an acquisition subsidiary of Propell s, which was formed solely for the purpose of the merger of CMI with and into Propell. As part of this transaction, the Company issued an aggregate of 5,400,000 shares to the former shareholders of CMI.

On May 6, 2008, the Company acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) (AMS) and Auleron 2005, LLC (d/b/a Auleron Technologies) (AUL) and made each a wholly owned subsidiary. A total of 2,094,864 shares of the Company s common stock were issued to the members of Mountain Capital, LLC and a total of 136,088 shares of the Company s common stock were issued to the members of AUL.

The mergers were completed in order to form a consolidated enterprise with subsidiaries that each have experience in complementary parts of the imaging and personalized products industries, and to expand their capabilities both online and at retail.

In mid-2009, Management decided to concentrate its efforts and assets on its e-commerce business. Shortly thereafter, AUL and AMS began to wind down operations. In January 2010, AUL was dissolved. In late 2009, AMS assigned its warranty responsibilities and its inventory to a third party and ceased operations. We dissolved AMS in late 2010. In furthering this decision to concentrate on e-commerce, we closed CMI s operations in July 2010. In September 2010, CMI s assets were foreclosed upon by its largest creditor and these assets were liquidated.

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OUR PLAN OF OPERATIONS

Our Company

We are a Delaware corporation providing e-commerce and fulfillment for image-based personalized products and services via custom websites for schools, nonprofits, media companies and other organizations. Through our proprietary online system, we allow partners to create instant e-commerce web sites (marketed as PropellShops®). This system provides a special web site at which a customer -- whether a business, group, or individual -- can design and set up a web store featuring their own logos, photos or other artwork. That web store can then be embedded into, or linked from, the customer s own web site. We then operate that store for the customer, taking orders, manufacturing and shipping product and paying a share of our revenue to the customer.

All of our current operations are conducted through Propell. We ceased operations of CMI in 2010 due to poor performance and insufficient capital. In 2009 we also ceased doing business through our Mountain Capital subsidiary. We assigned inventory and our warranty responsibilities and interaction with customers to a third party. We dissolved AMS in late 2010. Our third subsidiary, Auleron 2005, LLC, discontinued its operations in 2008; in November 2009, the decision was made to liquidate Auleron since it had no operations and management determined its resources were better focused on its Internet business. Auleron was formally liquidated in January 2010. Prior to our formation in January 2008, each subsidiary was independently owned.

Our current customers include eChalk, the Los Angeles Times, the Army Air Force Exchange Service, and numerous K-12 schools and universities, through e-commerce web sites. In addition, our management has a long track record of delivering a variety of consumer and photo products, services and logistics to partners, including Wal-Mart, Walgreens, CVS and Rite-Aid.

Our principal offices are located at 305 San Anselmo Avenue, Suite 300, San Anselmo, CA 94960. Our telephone number is (415) 747-8775. Our fiscal year end is December 31.

Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies have a material effect on reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to the individual Notes to the Financial Statements for the three months ended March 31, 2011.

Revenue Recognition

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

Use of estimates

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

Fair Values of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The carrying amount for borrowings under the financing agreement approximates fair value because of the variable market interest rates charged for these borrowings. We adopted FASB ASC Topic 820, *Fair Value Measurements & Disclosures*, for financial assets and financial liabilities in the first quarter of fiscal 2009, which did not have an impact on our financial statements.

Concentration of Credit Risk

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

Recently Issued Accounting Standards

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

Consolidated Results of Operations for the three months ended March 31, 2011 and March 31, 2010

For the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, net revenues increased $12,498 or approximately 111% as a result of continued growth in our customer base. In mid-2010 we completed an agreement with the Army Air Force Exchange (AAFES) whereby we offer ecommerce websites, that are integrated into AAFES s retail web site at www.aafes.com or www.shopmyexchange.com. These ecommerce sites target service members and their friends and families, and offer a wide range of apparel and other gift items that are printed or embroidered with insignia or other artwork representing military units or other subjects of interest to military members and their families or friends, that can then be further customized with the shopper s artwork or text, such as the service member s name. Through the first quarter of 2011, we have launched over 70 web shops within AAFES featuring Army, Navy, Marines, Air Force and other military themes or artwork.

For the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 cost of goods also increased approximately 111% and our gross margins held at approximately 28% the same as the comparable quarter last year. Operating expenses during these periods decreased $20,107 or 7%. This decrease was the result of staff decreases which reduced payroll and related costs by approximately $43,000 while the write-off of our website asset in the fourth quarter of 2010 accounted for another $25,000 of decreased expenses in the first quarter of 2011. These reductions were partially offset by interest expense increasing $21,000 as a result of our increased debt load.

Propell s primary use of cash for the three months ended March 31, 2011, was to fund our losses from continuing operations, offset by an influx of $125,000 in cash from notes payable and convertible notes payable. Net cash used in operating activities from continuing operations was $159,734 for the three months ended March 31, 2011 down from $209,311 for the comparable quarter last year.

Our ability to continue to execute on our plan of operations is contingent on our ability to raise additional capital to further develop our Internet initiatives and expand our marketing of our existing product line.

Liquidity and Capital Resources.

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

We have incurred an accumulated deficit of $4,811,024 through March 31, 2011. We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development effort. Based on our current plans, we believe that our cash will not be sufficient to enable us to meet our planned operating needs in the next 12 months.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

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 concluded that the Company s disclosure controls and procedures as of March 31, 2011 were 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.

(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 March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds update issuances for the quarter

In February 2011, the Company borrowed $100,000 under a one year unsecured note from a shareholder. Interest accrues on the note at the rate of 12% per annum. The note has no financial covenants. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction

Item 3. Defaults upon senior Securities

Our CMI subsidiary is in default on four separate loans which in the aggregate is approximately $848,916, and which are either made or guaranteed by the U.S. Small Business Administration (SBA). As a result, the SBA has informed CMI of their plans to seize CMI s assets which were pledged to secure the loans.

Item 4. Removed and Reserved

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

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

DATE: May 11, 2011

PROPELL CORPORATION

(Registrant)

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

(Principal Executive Officer and Principal Financial Officer)