

Kallo Inc.
Form 10-Q
August 14, 2013

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

FORM 10-Q

- QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY
PERIOD ENDED JUNE 30, 2013
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-53183

KALLO INC.
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of incorporation or organization)

15 Allstate Parkway, Suite 600
Markham, Ontario
Canada L3R 5B4
(Address of principal executive offices, including zip code.)

(416) 246-9997
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 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 last 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 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 large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: Kallo Inc. - Form 10-Q

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input type="radio"/>
Non-accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input checked="" type="radio"/>

(Do not check if smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicated the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 307,647,036 as of August 10, 2013.

Table of Contents

TABLE OF CONTENTS

		PAGE
<u>PART I</u>		
<u>Item 1.</u>	Financial Statements.	3
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
	<u>Unaudited Condensed Consolidated Statements Of Operations and Comprehensive Loss</u>	4
	<u>Unaudited Condensed Consolidated Statements Of Changes In Stockholders' Equity (Deficiency)</u>	5
	<u>Unaudited Condensed Consolidated Statements Of Cash Flows</u>	6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations.	13
<u>Item 3.</u>	Quantitative and Qualitative Disclosures about Market Risk.	20
<u>Item 4.</u>	Controls and Procedures.	20
<u>PART II</u>		
<u>Item 1.</u>	Legal Proceedings.	20
<u>Item 1A.</u>	Risk Factors.	20
<u>Item 6.</u>	Exhibits.	21
<u>Signatures</u>		24
<u>Exhibit Index</u>		25

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

KALLO INC.
(A Development Stage Company)
Condensed Consolidated Balance Sheets

ASSETS	June 30, 2013 (unaudited)	December 31, 2012
Current Assets:		
Cash	\$ 75,526	\$ 318,445
Other receivables	177,755	87,196
Prepaid expenses	70,581	132,817
Total Current Assets	323,862	538,458
Copyrights (Note 6)	865,000	865,000
Equipment, net	33,257	77,541
TOTAL ASSETS	\$ 1,222,119	\$ 1,480,999
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accrued liabilities	\$ 1,176,517	\$ 993,277
Accrued officers' salaries (Note 7)	20,000	55,000
Acquisition cost payable (Note 6)	525	525
Current portion of obligations under capital leases (Note 7)	46,887	108,268
Loan payable (Note 8)	61,893	109,044
Convertible promissory note (Note 9)	100,096	200,767
Short term loans payable (Note 10)	85,123	65,283
Deferred revenue	24,990	24,990
Total Current Liabilities	1,516,031	1,557,154
TOTAL LIABILITIES	1,516,031	1,557,154
Commitments and Contingencies (Note 7)		
Going Concern (Note 1)		
Stockholders' Deficiency (Note 3)		
Preferred stock, \$0.00001 par value, 100,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.00001 par value, 500,000,000 (December 31, 2012 – 500,000,000) shares authorized, 307,647,036 and 291,347,036 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.	3,076	2,913
Additional paid-in capital	18,096,532	17,286,695
Deficit accumulated during the development stage	(18,393,520)	(17,365,763)
Total Stockholders' Deficiency	(293,912)	(76,155)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 1,222,119	\$ 1,480,999
--	--------------	--------------

See accompanying notes to the unaudited condensed consolidated financial statements
F-1

Table of Contents

KALLO INC.
(A Development Stage Company)
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		December 12, 2006 (inception) to June 30, 2013
	2013	2012	2013	2012	
Revenue	\$ -	\$ -	\$ -	\$ -	\$ 15,887
Cost of Revenue	-	-	-	-	12,840
Gross Profit	-	-	-	-	3,047
Expenses					
General and administration	441,086	341,646	893,975	774,840	15,947,764
Selling and marketing	124,056	69,077	174,068	122,338	1,112,627
Software development costs	900	-	900	-	825,192
Foreign exchange loss (gain)	(19,653)	17,824	(12,294)	21,406	(22,602)
Depreciation	22,142	22,142	44,284	44,284	240,164
Interest and financing costs	4,533	12,699	7,494	38,696	216,795
Change in fair value on convertible promissory note	(333,612)	53,234	(34,003)	53,234	116,764
Gain on extinguishment of convertible promissory note	(46,667)	-	(46,667)	-	(46,667)
Loss on disposal of equipment	-	-	-	-	6,530
	192,785	516,622	1,027,757	1,054,798	18,396,567
Net Loss and Comprehensive Loss	\$ (192,785)	\$ (516,622)	\$ (1,027,757)	\$ (1,054,798)	\$(18,393,520)
Basic and diluted net loss per share					
	\$ (0.001)	\$ (0.004)	\$ (0.003)	\$ (0.008)	
Weighted average shares used in calculating Basic and diluted net loss per share					
	296,720,662	142,942,317	294,063,703	133,265,424	

For the six months period ended June 30, 2013 and June 30, 2012, there were 1,580,000 warrants outstanding, which could potentially dilute basic earnings per share in the future, but which were not included in diluted loss per share as their effect was anti-dilutive.

See accompanying notes to the unaudited condensed consolidated financial statements
F-2

Table of Contents

KALLO INC.
(A Development Stage Company)
Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficiency)
For the period from December 12, 2006 (inception) through to June 30, 2013

	Preferred Stock \$.00001 par value		Common Stock \$.00001 par value		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficiency)
	Shares	Amount	Shares	Amount			
Balance December 12, 2006 (Inception)	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Issuance of common shares	-	-	15,000,000	150	(100)	-	50
Net loss	-	-	-	-	-	(18,500)	(18,500)
Balance December 31, 2006 (Unaudited)	-	-	15,000,000	150	(100)	(18,500)	(18,450)
Issuance of common shares	-	-	1,721,502	17	172,608	-	172,625
Net loss	-	-	-	-	-	(232,602)	(232,602)
Balance December 31, 2007 (Unaudited)	-	-	16,721,502	167	172,508	(251,102)	(78,427)
Net loss	-	-	-	-	-	(65,770)	(65,770)
Balance December 31, 2008 (Unaudited)	-	-	16,721,502	167	172,508	(316,872)	(144,197)
Shares issued for Rophe Acquisition	-	-	6,000,000	60	765,240	-	765,300
Issuance of common shares	-	-	150,000	2	14,998	-	15,000
Stock based compensation	-	-	-	-	7,500	-	7,500
Net Loss	-	-	-	-	-	(440,374)	(440,374)
Balance December 31, 2009 (Unaudited)	-	-	22,871,502	229	960,246	(757,246)	203,229
Issuance of common shares	-	-	1,133,664	12	170,038	-	170,050
Issuance of units, consisting of common shares and common share warrants	-	-	1,580,000	16	394,984	-	395,000
Shares issued to officers and directors	-	-	13,500,000	135	3,374,865	-	3,375,000

Edgar Filing: Kallo Inc. - Form 10-Q

Net Loss	-	-	-	-	-	(3,662,252)	(3,662,252)
Balance December 31, 2010 (Audited) (As previously stated)	-	\$ -	39,085,166	\$ 392	\$ 4,900,133	\$ (4,419,498)	\$ 481,027
Correction of error (Note 15)	-	-	-	-	604,774	(604,774)	-
Balance December 31, 2010 (Audited) (As restated)	-	\$ -	39,085,166	\$ 392	\$ 5,504,907	\$ (5,024,272)	\$ 481,027
Issuance of common shares	-	-	13,604,132	136	718,558	-	718,694
Shares issued to officers, directors, employees and others	-	-	58,500,000	585	3,124,415	-	3,125,000
Shares issued for repayment of consulting fees	-	-	1,000,000	10	69,990	-	70,000
Settlement of accounts payable by common shares	-	-	883,334	8	49,426	-	49,434
Net Loss	-	-	-	-	-	(5,337,700)	(5,337,700)
Balance December 31, 2011 (Audited)	-	\$ -	113,072,632	\$ 1,131	\$ 9,467,296	\$ (10,361,972)	\$ (893,545)
Issuance of common shares	-	-	52,589,910	526	2,628,971	-	2,629,497
Shares issued to employees and others for services	-	-	117,834,494	1,178	4,745,238	-	4,746,416
Shares issued for repayment of consulting fees	-	-	5,000,000	50	349,950	-	350,000
Settlement of accounts payable by common shares	-	-	350,000	3	35,424	-	35,427
Settlement of compensation to past officer	-	-	500,000	5	59,995	-	60,000
Commitment shares held in trust by Kodiak (Note 3)	-	-	2,000,000	20	99,980	-	100,000
Receivable on stock subscription	-	-	-	-	(100,159)	-	(100,159)
Net Loss	-	-	-	-	-	(7,003,791)	(7,003,791)
Balance December 31, 2012 (Audited)	-	\$ -	291,347,036	\$ 2,913	\$ 17,286,695	\$ (17,365,763)	\$ (76,155)
Issuance of common shares	-	-	16,300,000	163	809,837	-	810,000
Net Loss	-	-	-	-	-	(1,027,757)	(1,027,757)
		\$	307,647,036	\$ 3,076	\$ 18,096,532	\$ (18,393,520)	\$ (293,912)

Balance June 30, 2013
(Unaudited)

See accompanying notes to the unaudited condensed consolidated financial statements
F-3

-5-

Table of Contents

KALLO INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	December 12, 2006 (inception) to June 30, 2013	
	2013	2012	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	\$(1,027,757)	\$(1,054,798)	\$ (18,393,520)
Adjustment to reconcile net loss to cash used in operating activities:			
Depreciation	44,284	44,284	240,164
Stock based compensation	-	47,988	11,229,832
Write-off of deferred financing costs	-	-	66,064
Extinguishment loss on revision of terms of loan conversion into shares	-	-	37,404
Loss on disposal of equipment	-	-	6,530
Non-cash interest accrued	343	-	9,069
Fair value loss on inception date of convertible promissory note	-	57,804	203,868
Change in fair value on convertible promissory note	(34,003)	(4,570)	(87,104)
Gain on extinguishment of convertible promissory note	(46,667)	-	(46,667)
Non-cash settlement of expenses	5,000	415,181	433,414
Changes in operating assets and liabilities:			
Increase in other receivables	(90,559)	(5,004)	(177,755)
Increase in prepaid expenses	62,236	(199,286)	(13,814)
Increase/(Decrease) in accrued liabilities and officers' salaries	148,240	(83,384)	1,773,380
Increase in deferred revenue	-	-	24,990
NET CASH USED IN OPERATING ACTIVITIES	(938,883)	(781,785)	(4,694,145)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired in Rophe acquisition	-	-	300
Purchase of equipment	-	-	(14,418)
NET CASH USED IN INVESTING ACTIVITIES	-	-	(14,118)
CASH FLOWS FROM FINANCING ACTIVITIES			
Stockholder advances/(repayments)	-	-	41,957
Proceeds from sale of common stock, net	805,000	756,374	4,556,744
Proceeds for shares to be issued	-	70,000	394,474
Deferred financing costs	-	-	(26,064)
Repayment of obligations under capital leases	(61,724)	(38,713)	(240,175)
(Repayment of) Proceeds from convertible promissory note	(20,001)	20,000	29,999
(Repayment of) Proceeds from loans payable	(27,311)	(9,290)	26,854
	695,964	798,371	4,783,789

NET CASH PROVIDED BY FINANCING
ACTIVITIES

NET (DECREASE) INCREASE IN CASH	(242,919)	16,586	75,526
CASH - BEGINNING OF PERIOD	318,445	15,821	-
CASH - END OF PERIOD	\$ 75,526	\$ 32,407	\$ 75,526

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$ -	\$ -	
---------------	------	------	--

SUPPLEMENTAL SCHEDULE OF NON-CASH
INVESTING AND
FINANCING ACTIVITIES

Accounts payable as partial consideration for Rophe acquisition	\$ -	\$ -	\$ 100,000
Common stock issued as partial consideration for Rophe acquisition	\$ -	\$ -	\$ 765,300
Acquisition of equipment under capital lease obligations	\$ -	\$ -	\$ 265,706
Conversion of loans payable into common shares	\$ -	\$ -	\$ 680,207
Settlement of accounts payable by common shares	\$ -	\$ -	\$ 84,861
Commitment shares held in trust by Kodiak	\$ -	\$ -	\$ 100,000

See accompanying notes to the unaudited condensed consolidated financial statements

F-4

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
(unaudited)

NOTE 1 – ORGANIZATION AND GOING CONCERN

Organization

Kallo Inc. (the “Company” or “Kallo”), a development stage company, was incorporated in Nevada on December 12, 2006. The Company originally offered media, inks, printing, and graphic design services to the large format digital printing industry. The Company’s fiscal year ends on December 31st. On December 31, 2009, Kallo entered into an agreement with Rophe Medical Technologies Inc. and its shareholders (collectively “Rophe”) wherein Kallo acquired all of the issued and outstanding shares of common stock of Rophe. As a result of the Rophe transaction, Kallo changed its business focus from selling printing equipment to manufacturing and developing software designed to taking medical information from many sources, and then depositing it into a single source as an electronic medical record for each patient.

On December 10, 2010, the Company entered into a North American Authorized Agency Agreement (the “Agreement”) with Advanced Software Technologies, Inc., located in the Grand Cayman Islands (“AST”). Under the Agreement, the Company was appointed sales agent for AST and will be paid fees by AST for selling AST products. The Company has agreed to pay AST a total of \$213,000 for modification of the AST products to comply with the requirements of the Canadian Electronic Health Record market. The AST technology is being incorporated into the Company’s medical information software currently in development. Delays in announcing EMR specifications 5.0 by Ontario and Canadian regulatory bodies has caused a delay in the marketing plans for launching AST products in the Canadian market despite our EMR having been announced as the official EMR of the paediatric section – Ontario Medical Association.

Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The amounts of assets and liabilities in the consolidated financial statements do not purport to represent realizable or settlement values. The Company has incurred operating losses since inception and has an accumulated deficit of \$18,393,520 at June 30, 2013. The Company will continue to incur losses as it develops its products and marketing channels during 2013.

The Company has met its historical working capital requirements from the sale of common shares and loans from an officer/stockholder. In order to not burden the Company, the officer/stockholder has agreed to provide funding to the Company to pay its annual audit fees, filing costs and legal fees as long as the board of directors deems it necessary. However, there can be no assurance that such financial support shall be ongoing or available on terms or conditions acceptable to the Company. This raises substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X related to smaller reporting companies. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited financial statements and notes, which are included as part of the Company's Form 10-K filed with the SEC for the year ended December 31, 2012.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. Notes to the financial statements which substantially duplicate the disclosure contained in the audited financial statements for fiscal year ended December 31, 2012 as reported in the 10-K have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited condensed consolidated financial statements.

F-5

-7-

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
(unaudited)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-11, “Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities”. The guidance in this update requires the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The pronouncement is effective for fiscal years and interim periods beginning on or after January 1, 2013 with retrospective application for all comparative periods presented. The Company adopted this new standard on January 1, 2013 and it had no material effect on the Company’s financial position or results of operations.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under US GAAP that provide additional detail on these amounts. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 had no material effect on our financial statements.

In October 2012, the FASB issued ASU No. 2012-04, Technical Corrections and Improvements. The ASU clarifies the Codification or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, Fair Value Measurement. This ASU 2012-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The ASU is effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 had no material effect on our financial statements.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02, Intangibles-Goodwill and Other-Testing Indefinite-Lived Intangible Assets for Impairment, to allow entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is then necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. This guidance is effective for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company adopted this guidance on January 1, 2013, and it had no material impact on the Company’s financial statements or related disclosures.

Recent Accounting Pronouncements

In March 2013, FASB issued ASU No. ASU 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The amendments in ASU 2013-05 provide guidance on releasing Cumulative Translation Adjustments when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, these amendments provide guidance on the release of cta in partial sales of equity method investments and in step acquisitions. The amendments are effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption. The Company plans to adopt this guidance beginning January 1, 2014. The adoption of this Standard should have no effect on the Company's financial statements.

F-6

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
(unaudited)

NOTE 3 – STOCKHOLDERS’ DEFICIENCY

Common Stock

During the quarter ended June 30, 2013, the Company issued 16,100,000 shares of its common stock in consideration of \$805,000 and 200,000 shares of its common stock valued at \$5,000 to a consultant as compensation.

On September 26, 2012, the Company entered into a investment agreement with Kodiak Capital Group, LLC (“Kodiak”) whereby the company issued 2,000,000 shares of its common stock in exchange for an option to sell up to \$2,000,000 worth of shares of the Company at a price equal to eighty percent (80%) of the lowest daily preceding five days Volume Weighted Average Price at the time of exercise and expires six months from inception. The Company recorded a stock subscription receivable (included in equity) in the amount of \$100,000 which was determined to be the fair value of the option on September 26, 2012. On October 24, 2012, Kallo filed a prospectus relating to the resale of up to 50,000,000 shares of common stock issuable to Kodiak for investment banking services pursuant to an Investment Agreement dated September 26th, 2012. The fair value of the option was valued using the following assumptions and estimates in the binomial lattice valuation model: Expected life of 6 months, volatility of 230%, dividend yield of 0% and risk-free interest rate of 0.13%.

The Investment Agreement will terminate when any of the following events occur:

- Kodiak has purchased an aggregate of \$2,000,000 of Kallo common stock or six (6) months after the effective date;
- Kallo files or otherwise enters an order for relief in bankruptcy; or
- Kallo common stock ceases to be registered under the Securities Exchange Act of 1934 (the “Exchange Act”).

On June 27, 2011, Kallo registered 10,000,000 shares of its Common Stock, par value \$0.00001 per share, under a 2011 Non-Qualified Stock Option Plan (the “2011 Plan”), to be offered and sold to accounts of eligible persons of the Company under the Plan at a proposed maximum offering price per share of \$0.15. This 2011 Plan is for persons employed or associated with the Company, including without limitation any employee, director, general partner, officer, attorney, accountant, consultant or advisor, is intended to advance the best interests of the Company by providing additional incentive to those persons who have a substantial responsibility for its management, affairs, and growth by increasing their proprietary interest in the success of the Company, thereby encouraging them to maintain their relationships with the Company. As at June 30, 2013, 7,233,334 shares have been issued under this 2011 Non-Qualified Stock Option Plan.

On September 6, 2012, Kallo registered 50,000,000 shares of its Common Stock, par value \$0.00001 per share, under a 2012 Non-Qualified Stock Option Plan (the “2012 Plan”) to be offered and sold to accounts of eligible persons of the Company under the Plan at a proposed maximum offering price per share of \$0.04. This 2012 Plan is for persons employed or associated with the Company, including without limitation any employee, director, general partner, officer, attorney, accountant, consultant or advisor, is intended to advance the best interests of the Company by providing additional incentive to those persons who have a substantial responsibility for its management, affairs, and growth by increasing their proprietary interest in the success of the Company, thereby encouraging them to maintain

their relationships with the Company. As at June 30, 2013, no shares have been issued under this 2012 Non-Qualified Stock Option Plan.

Stock Split

On February 8, 2008 the Board of Directors approved a three-for-one stock split effective February 25, 2008. All references in the consolidated financial statements and related notes related to the number of shares and per share amounts of the common stock have been retroactively restated to reflect the impact of this stock split.

F-7

-9-

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
(unaudited)

NOTE 4 – WARRANTS

Warrant activity for the year ended December 31, 2012 and the six months ended June 30, 2013 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2011 (audited)	1,580,000	\$ 0.50
Granted	-	-
Cancelled	-	-
Exercised	-	-
Balance, December 31, 2012 (audited) and June 30, 2013 (unaudited)	1,580,000	\$ 0.50

Each warrant is exercisable for a period of one year from the effective date of a registration statement filed with the SEC. Such registration statement has not been filed yet.

The value of the stock purchase warrants granted in 2010 was valued at \$117,620 using the following assumptions and estimates in the Black-Scholes model: Expected life of 1.2 years, volatility of 100%, dividend yield of 0% and risk-free interest rate of 1.40%.

NOTE 5 – RELATED PARTY TRANSACTIONS

Included in short term loans payable is an amount due to a shareholder and director of the Company for the amount of \$56,290 (See Note 10) and \$9,856 (See Note 10) due to another director and officer of the Company and in accrued liabilities – other is an amount of \$3,362 due to directors and officers of the Company as at June 30, 2013. Other receivables include an amount of \$36,258 due from a director and officer of the Company for travel advances as at June 30, 2013.

Transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 6 – ROPHE ACQUISITION

On December 11, 2009, an agreement was entered into by the Company to acquire 100% of the issued and outstanding shares of Rophe Medical Technologies Inc. (“Rophe”) for cash consideration of \$1,200,000 and 3,000,000 of the Company’s common shares valued at \$0.122 per share (based on discounted market price per share at the date of acquisition) for total purchase price of \$1,565,000 (the “Rophe Acquisition”). The \$1,200,000 was initially payable as follows: \$50,000 within 30 days of the date of the agreement; \$200,000 on March 31, 2010; \$250,000 on April 30, 2010; \$233,333 on launch of Project 1; \$233,333 on launch of Project 2; and, \$233,334 on launch of Project 3. This transaction was closed on December 31, 2009.

Subsequently, the Rophe Acquisition payment terms were amended and 3,000,000 additional shares of restricted common stock were issued in 2009 as payment for \$400,000 with the remaining cash consideration as follows: \$35,000 by March 5, 2010, \$65,000 by March 31, 2010, \$233,333 on launch of Project 1; \$233,333 on launch of Project 2; and, \$233,334 on launch of Project 3. As at June 30, 2013, there is a payable in the amount of \$525. The 3,000,000 shares were considered issued as at the closing date of the acquisition and valued based on discounted market price per share at the date of acquisition and the total of 6,000,000 shares issued for the Rophe acquisition are restricted.

The total recorded acquisition price of \$865,000 was allocated to the copyrights obtained in the acquisition as they were the only significant assets of Rophe, which did not have any operations. The Company has not recorded the remaining contingent payment of \$700,000 due to the uncertainty of the launch of Projects 1, 2 and 3. According to the Canadian Intellectual Property laws in Canada, the life of a copyright is the author's life, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year. As a result, the useful life of the copyrights are determined to be indefinite are not amortized but subject to testing for impairment. The Company reviews the value of the copyrights on an annual basis to determine if the value has been impaired.

F-8

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
unaudited

NOTE 7 – COMMITMENTS & CONTINGENCIES

Commitments

Operating lease

The Company leases office facilities under non-cancelable operating leases. The Company's obligations under non-cancelable lease commitments are as follows:

Year ending December 31, 2013	\$	34,236
Total	\$	34,236

Capital lease

Minimum lease payments on capital lease obligations are as follows:

Within one year	\$	46,887
	\$	46,887

Software development

As discussed in Note 1, the Company has agreed to pay AST a total of \$213,000 for modification of the AST products to comply with the requirements of the Canadian Electronic Health Record market, of which \$NIL (Fiscal 2012 - \$24,000) was paid in 2013. The remaining balance of \$56,496 is due in 2013.

Contingencies

(a) On July 29, 2011, Watt International Inc. ("Watt") commenced a third party claim against Kallo concerning monies that Kallo allegedly owed to Watt for branding and internet services provided by Watt to Kallo. Watt is seeking damages in the amount of \$161,673.67 plus unspecified "special" damage. Management is of the opinion that Watt has charged Kallo for services that Watt did not perform, and that Watt has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. Management has recognized an accrual for the amount of the claim. An estimate could not be made of the unspecified "special" damage and hence no accrual was made thereof. Management is therefore unable to estimate the possible loss or range of loss in excess of the amounts accrued, if any.

(b) On December 20, 2012, Mansfield Communications Inc. (Mansfield) filed a Statement of Claim against Kallo concerning monies allegedly owed by Kallo to Mansfield for media consultancy and communication services provided by Mansfield to Kallo. Mansfield is seeking damages in the amount of Canadian \$191,246.11 plus unspecified "special" damage. As a result of the claim, on January 11, 2013, Kallo has cancelled 500,000 common shares

previously issued to Mansfield as partial payment for services during 2012. On January 30, 2013, Kallo filed a Statement of Defense. Management is of the opinion that Mansfield has charged Kallo for services that Mansfield did not perform, and that Mansfield has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. Management has recognized an accrual for the amount of the claim. An estimate could not be made of the unspecified "special" damage and hence no accrual was made thereof. At this time, Management cannot assess the final outcome of this claim.

- (c) The Company has calculated the estimated amount of withholding taxes on stock-based compensation based on valuation obtained from a third party. Should the amount payable be different from the estimated amount, the difference will be recorded in the period of payment. At this point, the Company cannot make an estimate of the potential loss that may arise from any liability for withholding taxes.

F-9

Table of Contents

KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
June 30, 2013
Unaudited

NOTE 8 – LOAN PAYABLE

As at June 30, 2013, a loan payable of \$61,893 (2012 - \$109,044) to an arm's length party bears interest at 6% per annum, is unsecured and is payable in monthly installments of principal and interest in the amount of Canadian \$7,232.50. Future scheduled repayments of principal are as follows:

Within one year	\$	61,893
	\$	61,893

NOTE 9 – CONVERTIBLE PROMISSORY NOTE

The convertible promissory notes are unsecured and bear interest at 3.25% per annum with all principal and accrued interest due and payable one year from the dates of execution of the Notes. The Notes are due as follows: \$20,000 on April 23, 2013, \$10,000 on July 5, 2013, \$20,000 on August 22, 2012. The Holders may, in lieu of payment of the principal and interest, elect to convert such amount into common shares of the Company at the conversion price per share equal to 30% discount to the average of the previous three lowest trading days over the last 10 trading days prior to the Conversion Date. All shares converted on or after six months from the dates of execution of the notes shall be issued as free-trading, unrestricted shares. The Company may prepay these Notes at anytime without penalty and without the prior consent of the Holders.

At the commitment date, the Company elected to initially and subsequently measure in its entirety the convertible promissory notes at fair value by comparing the effective conversion price to the fair value of the Company's stock. The Company recognized an initial derivative loss of \$203,868 related to the debts on inception dates and recognized a gain of \$87,104 related to change in fair values on the debts since their inception dates to the period ended June 30, 2013. The number of common shares indexed to the derivative financial instruments used in the above calculation were 2,472,089 and 10,000,000 as at inception date and June 30, 2013 respectively.

During the quarter ended June 30, 2013, the Company repaid \$20,001 of the above promissory notes resulting in a gain of extinguishment of convertible promissory note of \$46,667.

Cash received from convertible promissory notes	\$	50,000
Derivative loss on inception date		203,868
Fair value of convertible promissory notes on inception date		253,868
Change in fair value (gain)		(53,101)
Fair value as at December 31, 2012		200,767
Repayment of convertible promissory note		(20,001)
Gain on extinguishment of convertible promissory note		(46,667)
Change in fair value loss (gain)		(34,003)
Fair value as at June 30, 2013	\$	100,096

NOTE 10 – SHORT TERM LOANS PAYABLE

On July 9, 2012, the Company issued a promissory note to a director agreeing to pay the principal amount of \$30,000 plus interest at the rate of 6% per annum on July 31, 2012. Kallo did not pay on the due date and the director advanced a further \$24,839 which is non-interest bearing, unsecured and has no fixed repayment date. The total amount of \$56,290 remains outstanding as at June 30, 2013.

An officer and a stockholder have agreed to provide short term funding to the Company by paying some of its expenses. The advances are non-interest bearing, unsecured and have no fixed repayment dates. As at June 30, 2013, \$9,856 was owing to the officer and the stockholder.

As at June 30, 2013, the balance of \$18,977 represented short term funding provided by third parties which are non-interest bearing, unsecured and have no fixed repayment date.

F-10

-12-

Table of Contents

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS.

This section of the report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

There is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay out our bills. This is because we have not generated substantial revenues and do not anticipate generating on-going revenue until we complete the development of our website and engage suppliers and customers to buy our products. We expect to incur operating losses in the foreseeable future and our ability to continue as a going concern is dependent upon our ability to raise additional money through investments by others and achieve profitable operations. There is no assurance that we will be able to raise additional money or that additional money or that additional financing will be available to us on satisfactory terms or that we will be able to achieve profitable operations. The consolidated statements were prepared under the assumption that the Company will continue as a going concern, however, there can be no assurance that such financial support shall be ongoing or available on terms or conditions acceptable to the Company. This raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the last 4 fiscal years, starting January 2010, Kallo management and board of directors have raised funds through a personal and professional network of angel investors. This has enabled product and business development, continued operations, and generation of customer interest. In order to continue operations, management has contemplated several options to raise capital and sustain operations in the next 12 months. One of these options is an equity line of credit from Kodiak Capital Group LLC. Management's opinion is that this line of credit from Kodiak Capital Group LLC will enable continued operations for the next 12 months. There is no assurance that Kodiak Capital Group LLC will supply us with any money. In the event we do not receive any funds from Kodiak, we will continue to borrow money from or sell restricted shares of our common stock to our officers and directors in order to maintain operations. Our officers and directors are under no legal duty to provide us with additional financing nor have our officers and directors committed to provide us with additional financing.

Analysis of our business acquisition and operations cost indicate a reasonable requirement of USD \$2,000,000 or less. We have entered into an agreement with Kodiak Capital Group, LLC., a Delaware limited liability company ("Kodiak") whereby we have the right to "put" to Kodiak up to \$2,000,000 in our shares of common stock. In connection therewith, we have filed a Form S-1 registration statement with the Securities and Exchange Commission registering for sale up to 50,000,000 shares of our common stock. Based upon the current price of our common stock, we believe that if Kodiak purchases all 50,000,000 shares of common stock, we will only receive \$720,000. The reasonable funding requirement of US\$2,000,000 is estimated to fund our operations and capital requirements over the next 12 months. Management believes that the Company can be generating revenue in the next 6-12 months, and therefore will not require additional funding.

On November 20, 2012, we signed a memorandum of understanding with the Ministry of Health of the Republic of Ghana for the supply and implementation of a National Mobile Care program with Mobile Clinics and Clinical Command Centers integrated with the existing healthcare system and improve the healthcare delivery services to the

rural and remote population of Ghana at large for a total project cost for National implementation and Maintenance support for five years of US\$158,500,000.

1. The Ministry of Health of the Republic of Ghana and Kallo Inc. have agreed that a contract for the implementation of the Mobile Care projects will be signed when the following conditions have been satisfied:

-13-

Table of Contents

- a) Approval of the Credit Agreement by the Cabinet and Parliament of Republic of Ghana and the relevant KALLO INC. for the implementation of the projects;
- b) Approval by the Ministry of Health of the detailed proposal for Mobile Care project submitted by Kallo Inc., dated 19 November 2012 which includes detailed technical specifications for the mobile clinics, training and maintenance support services.
- c) The training program will include a certification process for Kallo Inc., affiliated Canadian and United States Of America Medical Teaching University and Applied Science Colleges.
- d) Successful completion of "Value for Money" audit of the Contractor's proposal and negotiations;
- e) Approval of the contract by the Public Procurement Authority of Ghana.

2. That the National rollout overview and supply and training schedules will be mutually agreed, upon the acceptance of the indicative terms and condition of the loan by the Ministry of Finance and Economic Planning of the Republic of Ghana;

3. That Party B's financial proposals attached herein to be used by the Ministry of Finance and Economic Planning for consideration and value for money assessment;

a) That Party B's technical proposals shall be considered by a team of experts for assessment and negotiation

4. Any disputes between the parties shall be resolved through negotiation and mediation by the appropriate authorities

5. That within 30 days after the signing of the MOU, Party A shall notify Party B by a written document his requirements and specifications which shall include and not be limited to the following information:

- a) Feasibility study report
- b) National geographic locations and demographic deployment schedules for Mobile Clinics and Clinical Command Centers
- c) Different functional requirements of Mobile clinics for both rural and urban locations
- d) Number of Mobile Clinics and Clinical Command Centers in each region
- e) Current standards for medical equipment in hospital in Ghana, for example: the standard of radiation control of X-ray machine
- f) Standards for electric appliances used in mobile clinics and for environmental protection, for example: power outlet and interface of electric appliances, busing standards for the protection for X-ray machine
- g) Standards for waste-water treatment, medical waste treatment, operating-room and supply room of the Mobile Clinic
- h) Human resources deployment in district level hospital for mobile clinic
- i) Standards for contagious diseases isolation and sterilization in Ghana
- j) Principle of accessory and spare-parts supply
- k) Principle of medical consumables and medical equipment consumables

As at May 10, 2013, the following items have been satisfied:

- a) Approval by the Ministry of Health of the detailed proposal for Mobile Care project submitted by Kallo Inc., dated 19 November 2012 which includes detailed technical specifications for the mobile clinics, training and maintenance support services.
- b) The training program will include a certification process for Kallo Inc., affiliated Canadian and United States Of America Medical Teaching University and Applied Science Colleges.

- c) Feasibility study report
- d) National geographic locations and demographic deployment schedules for Mobile Clinics and Clinical Command Centers
- e) Different functional requirements of Mobile clinics for both rural and urban locations
- f) Number of Mobile Clinics and Clinical Command Centers in each region

Table of Contents

- g) Current standards for medical equipment in hospital in Ghana, for example: the standard of radiation control of X-ray machine
- h) Standards for electric appliances used in mobile clinics and for environmental protection, for example: power outlet and interface of electric appliances, busing standards for the protection for X-ray machine
- i) Standards for waste-water treatment, medical waste treatment, operating-room and supply room of the Mobile Clinic
- j) Human resources deployment in district level hospital for mobile clinic
- k) Standards for contagious diseases isolation and sterilization in Ghana
- l) Principal of accessory and spare-parts supply
- m) Principle of medical consumables and medical equipment consumables

Plan of Operation

The following Plan of Operation contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this document.

Kallo mobile Care implementation plan for Ghana is based on the timelines of the Mobiles Clinic's delivery and training provided by Kallo.

Based on the Delivery plan of Kallo Inc. there is a lead-time of 5-6 months for production and delivery of the first 2 mobile clinics in Ghana from the time of confirmed purchase order along with payments through Bank.

In this period of 5-6 months from the date of purchase order confirmation to Kallo Inc. the following shall be completed for go live of the Mobile Clinics.

1. Establish geographical coverage for Mobile Clinics based on hospitals to population ratio in specific rural areas of Ghana
2. Establish the Specialists support from Teaching Hospitals
3. Establish Leadership for operational and administrative support
4. Establish Governance Councils for operations, Education and Training

Kallo Mobile Care program with Mobile Clinics, Clinical and Administrative Command Centers deployed in an integrated model with the current healthcare delivery services will produce demonstrable impact in the community in terms of improved healthcare delivery within 12 months of implementation that would contribute to the flagship achievement by the current government to its merit.

As of the date of this report, the Kallo Mobile Care Program project-scope has been elevated to national discussions to include key stakeholders in healthcare delivery, National Disaster Management Organization (NADMO), National Security Agency (NSA), Ministry of Defence, Ministry of Health, Ghana Health Services (GHS), National Development Planning Commission (NDPC) and the local governments.

New Business Developments in Ghana

As a result of the recent prioritization of Ministry Of Health Short and Medium-Long-Term Programmes of Work and Performance Targets and Agreements on Key Health Indicators from the Office of the President, on April 23rd, 2013, the Minister Of Health of Ghana Hon. Sherry Ayithey wrote to the Minister of Finance of Ghana that the Ministry of Health had received, considered and approved an unsolicited Offer/Proposal from Kallo Inc. for the provision of Fixed Facilities with funding from the Export-Import (EXIM) Bank of the USA. She stated in the letter that this Project

deliverables are in line with policy and strategy guidelines and do reflect the aspirations of the Ministry.

A Value for Money (VFM) assessment conducted by the Ministry Of Health on the Kallo Case Development and Deliverability has determined that the logic of the Project, for the level of investment involved is clear and supported by evidence. She further states that the anticipated project solution represents a best value for money option.

-15-

Table of Contents

In the letter the Minister of Health has requested the Minister of Finance to negotiate and conclude the funding arrangement and the respective financing terms and conditions ahead of a joint submission to the Cabinet for consideration and approval.

The Ministry has identified project sites for this project as follows:

	Polyclinic Urban-Urban	Polyclinic Rural Rural	Total	CHIPS CPD
Greater Accra	3	1	4	0
Ashanti Region	2	1	3	0
Central Region	2	1	3	2
Northern Region	2	2	4	2
Upper East Region	1	2	3	2
Upper West Region	0	0	0	1
Western Region	2	3	5	0
Volta Region	1	1	2	2
Eastern Region	1	1	2	0
Brong-Ahafo Region	1	0	1	1
	15	12	27	10

Our plan and focus during the next twelve months include both, selling our existing product as well as developing and possibly selling new products. Since changing to our current business, we have not generated any revenues.

Costs Associated with the Plan of Operations

Currently under the Plan of Operations, we have expenses towards 6 full time resources, including engineers, applications specialist, and project and operations managers. We have completed the product development phase for Electronic Medical Records system, Mobile Clinics, and Clinical Command Centers. Our efforts are focused in commercializing these technologies and generating revenue. The current capital requirement caters only to the resources, infrastructure, and business development expenses for these technologies. Management analysis of our business acquisition and operations cost indicate a reasonable requirement of USD \$2,000,000 or less for the next 12-18 months of operations. Kallo management anticipates that this infusion of capital will generate revenue from sales of the above-mentioned technologies. This will in turn sustain the company and enable further development of other Kallo owned copyrighted technologies.

Our Sales and Marketing Strategy for existing developed products

KALLO EMCURx (EMR)

As of the date of this report, we have achieved an EMR milestone for Specialists, by securing an accepted and signed installation order. Our specialist EMR product, EMCURx, is customized to satisfy the needs of specialists, regardless of their specialty. The software is being installed and advance payment of \$24,990 has been received as of June 30, 2013. Revenue from this installation will be \$30,000 with an anticipated gross profit of \$20,000. Clinical user and administrative training will be completed in July 2013 to ensure seamless transition to a paperless digital medical clinic. Work on this order has commenced and installation will be completed in the third quarter 2013.

Our milestones during the next twelve months are:

1 – Developing our sales organization and marketing the third party products along with our software that bring the data from these products into an EMR system in the major metropolitan areas of Canada. We expect the cost to be \$300,000 and 12 months to complete this Milestone.

-16-

Table of Contents

2 – Simultaneously with the build-up of our sales organization, we will build a product support team that will provide installation, training and customer support. We expect the cost to be \$500,000 and 12 months to complete this Milestone.

3 – Expanding our market from the larger metropolitan areas to the smaller rural and more distant medical facilities. We expect the cost to be \$250,000 and 12 months to complete this Milestone.

4 – Developing our Mobile Care business globally. We expect the cost to be \$ 700,000 and 12 months to complete the Milestone.

Within Canada, we will focus on having a direct sales force to market and sell EMR to walk-in clinics/doctor's offices, Independent Diagnostic Centers /Independent Health Facilities and hospitals. The revenue generation from EMR consists of product sales, implementation, integration, training, on-going maintenance, and professional services.

Outside Canada, we may establish commercial partnerships for all of our product candidates in order to accelerate development and marketing in those countries and further broaden our products' commercial potential.

To date, we have not generated any revenues from our operations.

KALLO MOBILE CARE

We have successfully launched one of our copyrighted technologies "MOBILE CARE" - Mobile Clinics in November 2011, and have since then received several enquiries for this product from countries in Africa, Vietnam, North West Territories and Northern Ontario in Canada, USA, and the Middle East. We have not been contacted Sudan, Syria, or Iran. If we were contacted by Sudan, Syria, or Iran, we would not do business with them or with any entity located within their geographical boundaries since they are designated by the U.S. Department of State as sponsors of terrorism and are subject to U.S. economic sanctions and export controls. Based on the levels of interest from the local Ministries of Health, we have selected companies with business and technical strengths as our local representatives for sales and support in the region. Mobile Care is a state of the art clinical setup in a vehicle equipped with the latest technology in healthcare. More than just a facility, Mobile Care can instantly connect the onboard physician with specialists for on-demand consultation via satellite through its Telehealth system. This is truly a holistic approach to delivering healthcare to the remotely located. For many rural communities, the nearest hospital, doctor or nurse may be hundreds of kilometers away. In many cases, this gap can be bridged using Telehealth technology that allows patients, nurses and doctors to talk as if they were in the same room. Mobile Care is not the same thing as EMR referred to herein.

We expect to see sales revenues from Kallo's Mobile Care business unit in the next twelve (12) months. Kallo's Mobile Clinic is equipped with necessary medical equipment as per regional healthcare requirements. We also install our copyrighted software and third party software as required. Revenue is generated by charging for medical equipment, software licenses, installation implementation and training. This generates an ongoing revenue stream for service, maintenance, spare-parts, and consumables.

Our Development and Commercialization Strategy for new products

We intend to initiate sales of our products in our target commercial areas. Our target commercial areas are hospitals, clinics and doctors' offices. We expect to focus on marketing our current offering as well as completing product development for our product candidates in order to increase our possibilities for current and future revenue generation.

Our forward-looking plan envisions applying our copyrighted design and technology to develop three additional products, to bring to market integrated computer systems that address today's critical health management needs in epidemic control, medical information flow across borders and provision of health care in rural and remote areas.

-17-

Table of Contents

In addition to our EMR, which is ready for production, we have prioritized the following products for completion of development and are listing them in order of priority.

- A. M.C. Telehealth – Mobile Clinic Telehealth System – Developed and launched in November 2011.
- B. EMR Integration Engine – Electronic Medical Record Integration Engine - Under development.
- C. C&ID-IMS – Communicable and Infectious Disease Information Management System - Under Development
- D. CCG Technology – Clinical-Care Globalization technology – Under Development

We do not at this time have a definitive timetable as to when we will complete these intense development efforts.

We are considered to be in the development stage, as defined under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915-205. We have been in the development stage since our inception. We have had no substantial recurring source of revenue; we have incurred operating losses since inception and at June 30, 2013 had a working capital deficiency of \$1,192,169.

The development and marketing of new medical software technology is capital intensive. We have funded operations to date either through the sale of our common stock or through advances made by our key shareholders.

We have utilized funds obtained to date for organizational purposes and to commence certain financial transactions. We require additional funding to complete these transactions (including the acquisition of a service-based, valued-business enterprise and related expenses), expand our marketing and sales efforts and increase the Company’s revenue base.

Limited operating history; need for additional capital

There is no historical financial information about us upon which to base an evaluation of our performance. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a business enterprise, including limited capital resources and possible cost overruns due to price increases in services and products.

To become profitable and competitive, we have to sell our products and services.

We have no assurance that future financing will be available to us on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue, develop, or expand our operations. Equity financing could result in additional dilution to existing shareholders.

Results of operations

Revenues

We did not generate any revenues during the six months ended June 30, 2013 or 2012. From our inception on December 12, 2006 through June 30, 2013, we generated \$15,887 in revenues. We generated the revenues in 2007 when we were engaged in the business of selling printing equipment and related products. Since then we have not generated any revenues. We are in the process of completing the user training for our first installation of EMR for Specialists and will start generating revenues in 2013.

Expenses

Edgar Filing: Kallo Inc. - Form 10-Q

During the three months ended June 30, 2013 we incurred total expenses of \$192,785, including \$155,557 in salaries and compensation, \$22,142 in depreciation, \$180,200 in professional fees, \$124,056 in selling and marketing expenses and \$91,109 as other expenses net of \$333,612 gain in change in fair value of convertible promissory note and \$46,667 gain on extinguishment of convertible promissory note whereas during the three months ended June 30, 2012 we incurred total expenses of \$516,622, including \$140,320 in salaries and compensation, \$22,142 in depreciation, \$156,444 in professional fees, \$69,077 in selling and marketing expenses, \$53,234 loss in change in fair value of convertible promissory note and \$75,405 in other expenses. Our professional

-18-

Table of Contents

fees consist of legal, consulting, accounting and auditing fees. The decrease in our total expenses for the three months ended June 30, 2013 from the comparative period is mainly due to the unrealized gain of \$380,279 on fair value changes and extinguishment in convertible promissory note in the current quarter compared with a loss of \$53,234 on the fair value changes in convertible promissory note in the previous period. There is also an increase of \$15,237 in salaries and compensation, \$23,756 in professional fees, \$54,979 in selling and marketing expenses and \$15,704 in other expenses as the Company start gearing up for new potential contracts in the Republic of Ghana.

During the six months ended June 30, 2013 we incurred total expenses of \$1,027,757, including \$330,342 in salaries and compensation, \$44,284 in depreciation, \$390,481 in professional fees, \$174,068 in selling and marketing expenses and \$88,582 as other expenses net of \$34,003 gain in change in fair value of convertible promissory note and \$46,667 gain on extinguishment of convertible promissory note whereas during the six months ended June 30, 2012 we incurred total expenses of \$1,054,798, including \$355,868 in salaries and compensation, \$44,284 in depreciation, \$310,070 in professional fees, \$122,338 in selling and marketing expenses, \$53,234 in change in fair value of convertible promissory note and \$169,004 in other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees. Total expenses for the six months ended June 30, 2013 are in line with the comparative period. There is also an increase of \$80,411 in professional fees, \$51,730 in selling and marketing offset by a decrease of \$80,422 in other expenses.

Net Loss

During the three months ended June 30, 2013 we did not generate any revenues and incurred a net loss of \$192,785 compared to a net loss of \$516,622 during the same period in 2012. The main reason is mainly due to the unrealized gain of \$380,279 on fair value changes and extinguishment in convertible promissory note in the current quarter compared with a loss of \$53,234 on the fair value changes in convertible promissory note in the previous period.

During the six months ended June 30, 2013 we did not generate any revenues and we incurred a net loss of \$1,027,757 in line with a net loss of \$1,054,798 during the same period in 2012.

From our inception on December 12, 2006 to June 30, 2013 we incurred a net loss of \$18,393,520, \$15,947,764 of which was general and administration, \$825,192 of which was software development costs, \$1,112,627 of which was selling and marketing, \$240,164 of which was depreciation, \$216,795 of which was interest and financing costs and \$50,978 of which was other expenses.

Liquidity and capital resources

As at June 30, 2013, the Company had current assets of \$323,862 and current liabilities of \$1,516,031, indicating working capital deficiency of \$1,192,169. As of June 30, 2013, our total assets were \$1,222,119 in cash, prepaid expenses, copyrights, equipment and our total liabilities were \$1,516,031 comprised of \$1,176,517 in accrued liabilities, \$20,000 in accrued officer salaries, Rophe Medical Technologies Inc. acquisition costs payable of \$525, obligations under capital leases of \$46,887, convertible promissory note of \$100,096, short term loans of \$85,123, deferred revenue of \$24,990 and loan of \$61,893.

Cash used in operating activities amounted to \$938,883 during the six months ended June 30, 2013, primarily as a result of the net loss adjusted for non-cash items and various changes in operating assets and liabilities.

There were no cash used in investing activities during the current six months period ended June 30, 2013.

Cash provided by financing activities during the six months ended June 30, 2013 amounted to \$695,964 and represented proceeds from sale of common stock of \$805,000, net of repayment of convertible promissory note of \$20,001, repayment of loans payable of \$27,311 and payments under capital lease obligations of \$61,724.

The Company issued 16,300,000 unregistered shares of common stock for cash consideration of \$810,000 during the six months period.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are not effective due to lack of segregation of duties in financial reporting and presence of adjusting journal entries during our last audit. There was no change in our internal control over financial reporting during the quarter ended June 30, 2013 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.

As of March 14, 2012, we settled our dispute with Leonard Steinmetz, our former treasurer, principal financial officer, principal accounting officer, and a member of the board of directors. We agreed to resolve all of our differences by paying Mr. Steinmetz \$130,000 in installments as follows: \$25,000, beginning eight days from the receipt from the Occupational and Safety Administration (“OSHA”) of its notice approving the withdrawal of Mr. Steinmetz’s OSHA complaint with prejudice; \$10,000 to be paid on or before the last business day of each of the ten months following month of receipt of said notice from OSHA; and, a final installment of \$5,000.00 or before the last business day of the eleventh month. In addition, we agreed, that within 21 days of receipt of said notice from OSHA, we are to issue 500,000 restricted shares of our common stock to Mr. Steinmetz. On May 2, 2012, the Occupational and Safety Administration approved Leonard Steinmetz’s withdrawal of his complaint against us. All payments due to Mr Steinmetz under the settlement agreement have been made.

On July 29, 2011, Watt International Inc. (“Watt”) commenced a third party claim against Kallo concerning monies that Kallo allegedly owed to Watt for branding and internet services provided by Watt to Kallo. Watt is seeking damages in the amount of \$161,673.67 plus unspecified “special” damage. Management is of the opinion that Watt has charged Kallo for services that Watt did not perform, and that Watt has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. Management has recognized an accrual for the amount of the claim. An estimate could not be made of the unspecified “special” damage and hence no accrual was made thereof.

On December 20, 2012, Mansfield Communications Inc. (Mansfield) entered into a legal action against Kallo concerning monies allegedly owed by Kallo to Mansfield for media consultancy and communication services provided by Mansfield to Kallo (Mansfield Communications Inc., Plaintiff vs. Kallo Inc., Defendant filed a Statement of Claim in the Ontario Superior Court of Justice, Case No. CV-12-47061). Mansfield is seeking damages in the amount of \$191,246.11 plus unspecified “special” damage. On January 30, 2013, Kallo filed a Statement of Defense. Management is of the opinion that Mansfield has charged Kallo for services that Mansfield did not perform, and that Mansfield has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. At this time, management cannot assess the final outcome of the claim. Management has recognized an accrual for an amount of \$161,991. An estimate could not be made of the unspecified “special” damage and hence no accrual was made thereof.

ITEM 1A. RISK FACTORS.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

-20-

Table of Contents

ITEM 6. EXHIBITS.

The following documents are included herein:

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
2.1	Articles of Merger.	8-K	1/21/11	2.1	
3.1	Articles of Incorporation.	SB-2	3/05/07	3.1	
3.2	Bylaws.	SB-2	3/05/07	3.2	
4.1	Specimen Stock Certificate.	SB-2	3/05/07	4.1	
5.1	Opinion of The Law Office of Conrad C. Lysiak, P.S.	S-1/A-2	4/01/13	5.1	
10.1	Option Agreement.	SB-2	3/05/07	10.1	
10.2	Lease Agreement.	SB-2	3/05/07	10.1	
10.3	Agreement with Rophe Medical Technologies Inc. dated December 11, 2009.	10-K	3/31/10	10.2	
10.4	Amended Agreement with Rophe Medical Technologies Inc. dated December 18, 2009.	10-K	3/31/10	10.3	
10.5	Amended Agreement with Rophe Medical Technologies Inc. dated March 16, 2010.	10-K	3/31/10	10.4	
10.6	Investment Agreement with Kodiak Capital Group, LLC.	S-1	10/24/12	10.6	
10.7	Consulting Agreement with Ten Associate LLC.	S-1	5/24/10	10.7	
10.8	Employment Agreement with Leonard Steinmetz.	S-1	5/24/10	10.8	
10.9	Employment Agreement with Samuel Baker.	S-1	5/24/10	10.9	
10.10	Employment Agreement with John Cecil.	S-1	5/24/10	10.10	
10.11	Employment Agreement with Mary Kricfalusi.	S-1	5/24/10	10.11	
10.12	Employment Agreement with Vince Leitao.	S-1	5/24/10	10.12	
10.13	Amended Consulting Agreement with Ten Associate LLC dated October 5, 2010.	8-K	10/14/10	10.13	

Edgar Filing: Kallo Inc. - Form 10-Q

10.14	Agreement with Jarr Capital Corp.	8-K	11/17/10	10.1
10.15	Agreement with Mary Kricfalusi.	8-K	11/19/10	10.1
10.16	Agreement with Herb Adams.	8-K	11/19/10	10.2

-21-

Table of Contents

10.17	North American Authorized Agency Agreement with Advanced Software Technologies, Inc.	8-K	12/16/10	10.1
10.18	Amended Agreement with Jarr Capital Corp.	8-K	2/22/11	10.1
10.19	Termination of Employment Agreement with John Cecil.	8-K	2/22/11	10.2
10.20	Termination of Employment Agreement with Vince Leitao.	8-K	2/22/11	10.3
10.21	Termination of Employment Agreement with Samuel Baker.	8-K	2/22/11	10.4
10.22	Services Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/11	10.1
10.23	Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/11	10.2
10.24	Agreement with Mansfield Communications Inc.	10-K	5/18/11	10.3
10.25	Agreement with Watt International Inc.	10-K	5/18/11	10.4
10.26	Pilot EMR Agreement with Nexus Health Management Inc.	10-K	5/18/11	10.5
10.27	2011 Non-Qualified Stock Option Plan.	S-8	6/27/11	10.1
10.28	Multimedia Contractual Agreement with David Miller.	8-K	10/28/11	10.1
10.29	Strategic Alliance Agreement with Petro Data Management Services Limited and Gateway Global Fabrication Ltd.	8-K	11/02/11	10.1
10.30	Independent Contractor Agreement with Savers Drug Mart.	8-K	1/26/12	10.1
10.31	2012 Non-Qualified Stock Option Plan.	S-8	9/06/12	10.1
10.32	Memorandum of Offering with Ministry of Health of Republic of Ghana.	S-1/A-3	6/26/13	10.32
10.33	Addendum to Investment Agreement with Kodiak.	S-1/A-4	7/31/13	10.33
14.1	Code of Ethics.	10-K	4/15/08	14.1

Edgar Filing: Kallo Inc. - Form 10-Q

16.1	Letter from Collins Barrow Toronto LLP.	8-K/A-1	2/15/12	16.3
21.1	List of Subsidiary Companies.	10-K	3/31/10	21.1

-22-

Table of Contents

31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
99.1	Audit Committee Charter.	10-K	4/15/08	99.1	
99.2	Disclosure Committee Charter.	10-K	4/15/08	99.2	
101.INS	XBRL Instance Document.				X
101.SCH	XBRL Taxonomy Extension – Schema.				X
101.CAL	XBRL Taxonomy Extension – Calculations.				X
101.DEF	XBRL Taxonomy Extension – Definitions.				X
101.LAB	XBRL Taxonomy Extension – Labels.				X
101.PRE	XBRL Taxonomy Extension – Presentation.				X

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 14th day of August, 2013.

KALLO INC.
(The "Registrant")

BY: JOHN CECIL
John Cecil
Principal Executive Officer, Principal Financial
Officer, Principal Accounting Officer, and a
Chairman of the Board of Directors

BY: VINCE LEITAO
Vince Leitao
President, Chief Operating Officer and a
member of the Board of Directors

Table of Contents

EXHIBIT INDEX

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
2.1	Articles of Merger.	8-K	1/21/11	2.1	
3.1	Articles of Incorporation.	SB-2	3/05/07	3.1	
3.2	Bylaws.	SB-2	3/05/07	3.2	
4.1	Specimen Stock Certificate.	SB-2	3/05/07	4.1	
5.1	Opinion of The Law Office of Conrad C. Lysiak, P.S.	S-1/A-2	4/01/13	5.1	
10.1	Option Agreement.	SB-2	3/05/07	10.1	
10.2	Lease Agreement.	SB-2	3/05/07	10.1	
10.3	Agreement with Rophe Medical Technologies Inc. dated December 11, 2009.	10-K	3/31/10	10.2	
10.4	Amended Agreement with Rophe Medical Technologies Inc. dated December 18, 2009.	10-K	3/31/10	10.3	
10.5	Amended Agreement with Rophe Medical Technologies Inc. dated March 16, 2010.	10-K	3/31/10	10.4	
10.6	Investment Agreement with Kodiak Capital Group, LLC.	S-1	10/24/12	10.6	
10.7	Consulting Agreement with Ten Associate LLC.	S-1	5/24/10	10.7	
10.8	Employment Agreement with Leonard Steinmetz.	S-1	5/24/10	10.8	
10.9	Employment Agreement with Samuel Baker.	S-1	5/24/10	10.9	
10.10	Employment Agreement with John Cecil.	S-1	5/24/10	10.10	
10.11	Employment Agreement with Mary Kricfalusi.	S-1	5/24/10	10.11	
10.12	Employment Agreement with Vince Leitao.	S-1	5/24/10	10.12	
10.13	Amended Consulting Agreement with Ten Associate LLC dated October 5, 2010.	8-K	10/14/10	10.13	
10.14	Agreement with Jarr Capital Corp.	8-K	11/17/10	10.1	

Edgar Filing: Kallo Inc. - Form 10-Q

10.15	Agreement with Mary Kricfalusi.	8-K	11/19/10	10.1
10.16	Agreement with Herb Adams.	8-K	11/19/10	10.2

-25-

Table of Contents

10.17	North American Authorized Agency Agreement with Advanced Software Technologies, Inc.	8-K	12/16/10	10.1
10.18	Amended Agreement with Jarr Capital Corp.	8-K	2/22/11	10.1
10.19	Termination of Employment Agreement with John Cecil.	8-K	2/22/11	10.2
10.20	Termination of Employment Agreement with Vince Leitao.	8-K	2/22/11	10.3
10.21	Termination of Employment Agreement with Samuel Baker.	8-K	2/22/11	10.4
10.22	Services Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/11	10.1
10.23	Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/11	10.2
10.24	Agreement with Mansfield Communications Inc.	10-K	5/18/11	10.3
10.25	Agreement with Watt International Inc.	10-K	5/18/11	10.4
10.26	Pilot EMR Agreement with Nexus Health Management Inc.	10-K	5/18/11	10.5
10.27	2011 Non-Qualified Stock Option Plan.	S-8	6/27/11	10.1
10.28	Multimedia Contractual Agreement with David Miller.	8-K	10/28/11	10.1
10.29	Strategic Alliance Agreement with Petro Data Management Services Limited and Gateway Global Fabrication Ltd.	8-K	11/02/11	10.1
10.30	Independent Contractor Agreement with Savers Drug Mart.	8-K	1/26/12	10.1
10.31	2012 Non-Qualified Stock Option Plan.	S-8	9/06/12	10.1
10.32	Memorandum of Offering with Ministry of Health of Republic of Ghana.	S-1/A-3	6/26/13	10.32
10.33	Addendum to Investment Agreement with Kodiak.	S-1/A-4	7/31/13	10.33
14.1	Code of Ethics.	10-K	4/15/08	14.1

Edgar Filing: Kallo Inc. - Form 10-Q

16.1	Letter from Collins Barrow Toronto LLP.	8-K/A-1	2/15/12	16.3
21.1	List of Subsidiary Companies.	10-K	3/31/10	21.1

-26-

Table of Contents

31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
99.1	Audit Committee Charter.	10-K	4/15/08	99.1	
99.2	Disclosure Committee Charter.	10-K	4/15/08	99.2	
101.INS	XBRL Instance Document.				X
101.SCH	XBRL Taxonomy Extension – Schema.				X
101.CAL	XBRL Taxonomy Extension – Calculations.				X
101.DEF	XBRL Taxonomy Extension – Definitions.				X
101.LAB	XBRL Taxonomy Extension – Labels.				X
101.PRE	XBRL Taxonomy Extension – Presentation.				X

