

Kallo Inc.
Form 10-Q
May 15, 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 MARCH 31, 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):

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| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| 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: 291,347,036 as of May 10, 2013.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

| ASSETS | March 31, 2013 (unaudited) | December 31, 2012 |
|---|----------------------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 93,547 | \$ 318,445 |
| Other receivables | 123,443 | 87,196 |
| Prepaid expenses | 100,562 | 132,817 |
| Total Current Assets | 317,552 | 538,458 |
| Copyrights (Note 6) | 865,000 | 865,000 |
| Equipment, net | 55,399 | 77,541 |
| TOTAL ASSETS | \$ 1,237,951 | \$ 1,480,999 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Accrued liabilities | \$ 1,109,595 | \$ 993,277 |
| Accrued officers' salaries | 25,000 | 55,000 |
| Acquisition cost payable (Note 6) | 525 | 525 |
| Current portion of obligations under capital leases (Note 7) | 77,940 | 108,268 |
| Loans payable (Note 8) | 95,530 | 109,044 |
| Convertible promissory note (Note 9) | 500,376 | 200,767 |
| Short term loans payable (Note 10) | 85,122 | 65,283 |
| Deferred revenue | 24,990 | 24,990 |
| Total Current Liabilities | 1,919,078 | 1,557,154 |
| Deposit for shares to be issued | 230,000 | - |
| TOTAL LIABILITIES | 2,149,078 | 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, 291,347,036 shares issued and outstanding at March 31, 2013 and December 31, 2012 | 2,913 | 2,913 |
| Additional paid-in capital | 17,286,695 | 17,286,695 |
| Deficit accumulated during the development stage | (18,200,735) | (17,365,763) |

| | | |
|---|---------------------|---------------------|
| Total Stockholders' Deficiency | (911,127) | (76,155) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 1,237,951 | \$ 1,480,999 |

See accompanying notes to the unaudited condensed consolidated financial statements

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

| | Three Months Ended March 31, | | December 12, 2006 (inception) to March 31, 2013 |
|--|---------------------------------|--------------|---|
| | 2013 | 2012 | |
| Revenue | \$ - | \$ - | \$ 15,887 |
| Cost of Revenue | - | - | 12,840 |
| Gross Profit | - | - | 3,047 |
| Expenses | | | |
| General and administration | 452,889 | 433,194 | 15,506,678 |
| Selling and marketing | 50,012 | 53,261 | 988,571 |
| Software development costs | - | - | 824,292 |
| Foreign exchange loss (gain) | 7,359 | 3,582 | (2,949) |
| Depreciation | 22,142 | 22,142 | 218,022 |
| Interest and financing costs | 2,961 | 25,997 | 212,262 |
| Change in fair value on convertible promissory notes | 299,609 | - | 450,376 |
| Loss on disposal of equipment | - | - | 6,530 |
| | 834,972 | 538,176 | 18,203,782 |
| Net Loss and Comprehensive Loss | \$ (834,972) | \$ (538,176) | \$(18,200,735) |
| Basic and diluted net loss per share | \$ (0.003) | \$ (0.004) | |
| Weighted average shares used in calculating | | | |
| Basic and diluted net loss per share | 291,347,036 | 123,588,531 | |

For the three months period ended March 31, 2013 and March 31, 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
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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 March 31, 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 | - | - | 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 (Audited) | - | - | 16,721,502 | 167 | 172,508 | (251,102) | (78,427) |
| Net loss | - | - | - | - | - | (65,770) | (65,770) |
| Balance December 31, 2008 (Audited) | - | - | 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 (Audited) | - | - | 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 |
| Net Loss | - | - | - | - | - | (3,662,252) | (3,662,252) |
| Balance December 31, 2010 | - | \$ - | 39,085,166 | \$ 392 | \$ 4,900,133 | \$ (4,419,498) | \$ 481,027 |

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| | | | | | | | |
|--|---|------|-------------|----------|---------------|-----------------|--------------|
| (Audited) (As previously stated) | | | | | | | |
| 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) (As restated) | - | \$ - | 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) |
| Net Loss | - | - | - | - | - | (834,972) | (834,972) |
| Balance March 31, 2013 (Unaudited) | | \$ | 291,347,036 | \$ 2,913 | \$ 17,286,695 | \$ (18,200,735) | \$ (911,127) |

See accompanying notes to the unaudited condensed consolidated financial statements

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

| | Three Months Ended March 31, | | December 12, 2006 (inception) to March 31, 2013 |
|---|---------------------------------|------------------|---|
| | 2013 | 2012 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Loss | \$ (834,972) | \$ (538,176) | \$(18,200,735) |
| Adjustment to reconcile net loss to cash used in operating activities: | | | |
| Depreciation | 22,142 | 22,142 | 218,022 |
| 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 | - | - | 8,726 |
| Fair value loss on inception date of convertible promissory note | - | - | 203,868 |
| Change in fair value on convertible promissory note | 299,609 | - | 246,508 |
| Non-cash settlement of expenses | - | 355,181 | 428,414 |
| Changes in operating assets and liabilities: | | | |
| Increase in other receivables | (36,247) | (15,280) | (123,443) |
| Decrease/(Increase) in prepaid expenses | 32,255 | (279,625) | (43,795) |
| Increase/(Decrease) in accrued liabilities and officers' salaries | 86,318 | (83,797) | 1,711,458 |
| Increase in deferred revenue | - | - | 24,990 |
| NET CASH USED IN OPERATING ACTIVITIES | (430,895) | (491,567) | (4,186,157) |
| 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 | - | 756,374 | 4,146,218 |
| Proceeds for shares to be issued | 230,000 | - | 230,000 |
| Deferred financing costs | - | - | (26,064) |
| Repayment of obligations under capital leases | (30,328) | (18,840) | (208,779) |
| Proceeds from convertible promissory note | - | - | 50,000 |
| Proceeds from loans payable | 6,325 | - | 60,490 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 205,997 | 737,534 | 4,293,822 |

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| | | | |
|---|-----------|------------|------------|
| NET (DECREASE) INCREASE IN CASH | (224,898) | 245,967 | 93,547 |
| CASH - BEGINNING OF PERIOD | 318,445 | 15,821 | - |
| CASH - END OF PERIOD | \$ 93,547 | \$ 261,788 | \$ 93,547 |
| 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

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 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 \$18,200,735 at March 31, 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 officers/stockholders. In order to not burden the Company, certain officers/stockholders have 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. As at March 31, 2013, the Company has received \$230,000 for shares subscription not yet issued.

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.

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2013
(unaudited)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Basis of Presentation (continued)

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.

Recently Adopted Accounting Pronouncements

In December 2011, the 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 consolidated 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.

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.

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2013
(unaudited)

NOTE 3 – STOCKHOLDERS’ DEFICIENCY

Common Stock

There was no issuance of shares during the quarter ended March 31, 2013. The Company received subscription agreements and cash for \$230,000 which equates to 4,600,000 shares which have not been issued as at March 31, 2013.

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 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 March 31, 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 March 31, 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.

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2013
(unaudited)

NOTE 4 – WARRANTS

Warrant activity for the year ended December 31, 2012 and the three months ended March 31, 2013 is as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|--------------------|------------------------------------|
| Balance, December 31, 2011 | 1,580,000 | \$ 0.50 |
| Granted | - | - |
| Cancelled | - | - |
| Exercised | - | - |
| Balance, December 31, 2012 (audited) and March 31, 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 \$56,289 (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 \$11,241 due to directors and officers of the Company as at March 31, 2013. Other receivables include an amount of \$6,850 due from a director and officer of the Company as at March 31, 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 March 31, 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.

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 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 | \$ | 34,046 |
| Total | \$ | 34,046 |

Capital lease

Minimum lease payments on capital lease obligations are as follows:

| | | |
|-----------------|----|--------|
| Within one year | \$ | 77,940 |
| | \$ | 77,940 |

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) Included in accrued officers' salaries is an amount of \$5,000 payable to a past officer for settlement of claims which the Company has agreed to a final payment of \$5,000 by April 30, 2013. This settlement agreement was a result of an action by the past officer against the Company to recover past compensation due. The Company and the past officer had agreed to settle all the claims in exchange of the Company paying a total of \$130,000 (of which \$125,000 has been paid by March 31, 2013) and issuing 500,000 restricted shares of its common stock to the past officer. In the event the Company fails to make payment of any of the above installments on time and within 10 business days of the past officer giving written notice to the Company of such failure to make payment, the past officer may declare all unpaid installments as immediately due and payable by written notice to the Company.

(d) 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.

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KALLO INC.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
March 31, 2013
Unaudited

NOTE 8 – LOAN PAYABLE

As at March 31, 2013, a loan payable of \$95,530 (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 | \$ | 95,530 |
| | \$ | 95,530 |

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 loss of \$246,508 related to change in fair values on the debts since their inception dates to the period ended March 31, 2013. The number of common shares indexed to the derivative financial instruments used in the above calculation were 2,472,089 and 16,666,667 as at inception date and March 31, 2013 respectively.

| | | |
|--|----|----------|
| Cash received from convertible promissory notes | \$ | 50,000 |
| Fair value loss on inception date | | 203,868 |
| Fair value of convertible promissory notes on inception date | | 253,868 |
| Change in fair value loss (gain) | | (53,101) |
| Fair value as at December 31, 2012 | | 200,767 |
| Change in fair value loss (gain) | | 299,609 |
| Fair value as at March 31, 2013 | \$ | 500,376 |

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 March 31, 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 March 31, 2013, \$9,856 was owing to the officer and the stockholder.

As at March 31, 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.

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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 \$1,600,000. In order to raise the balance of \$400,000, we will have to register another 12,500,000 shares of common stock. The foregoing assumes that the market price for our common stock will not decrease further. If the market price for our common stock decreases further, we will have to register additional shares for sale which will continue to dilute our existing shareholders substantially.

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:

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- 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.

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- 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

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- 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.

Our plan and focus during the next twelve months include implementing Kallo Mobile Care program in Ghana in a timely manner, selling our existing products as well as developing and possibly selling new products.

Costs Associated with the Plan of Operations

Currently under the Plan of Operations, we have expenses towards 7 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.

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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 March 31, 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.

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.

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.

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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.

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 March 31, 2013 had a working capital deficiency of \$1,601,526.

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.

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Results of operations

Revenues

We did not generate any revenues during the three months ended March 31, 2013 or 2012. From our inception on December 12, 2006 through March 31, 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

During the three months ended March 31, 2013 we incurred total expenses of \$834,972, including \$174,785 in salaries and compensation, \$22,142 in depreciation, \$210,281 in professional fees, \$50,012 in selling and marketing expenses, \$299,609 in derivative loss and change in fair value of convertible promissory note and \$78,143 as other expenses whereas during the three months ended March 31, 2012 we incurred total expenses of \$538,176, including \$215,548 in salaries and compensation, \$22,142 in depreciation, \$153,626 in professional fees, \$53,261 in selling and marketing expenses and \$93,599 in other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees. The increase in our total expenses for the three months ended March 31, 2013 from the comparative period is due mainly to the change in fair value on convertible promissory notes of \$299,609.

Net Loss

During the three months ended March 31, 2013 we did not generate any revenues and incurred a net loss of \$834,972 compared to a net loss of \$538,176 during the same period in 2012. The main reason is because of the change in fair value on convertible promissory notes of \$299,609.

From our inception on December 12, 2006 to March 31, 2013 we incurred a net loss of \$18,200,735, \$15,506,678 of which was general and administration, \$824,292 of which was software development costs, \$988,571 of which was selling and marketing, \$218,022 of which was depreciation, \$212,262 of which was interest and financing costs, \$450,376 of which was change in fair value on convertible promissory notes and \$534 of which was other expenses.

Liquidity and capital resources

As at March 31, 2013, the Company had current assets of \$317,552 and current liabilities of \$1,919,078, indicating working capital deficiency of \$1,601,526. As of March 31, 2013, our total assets were \$1,237,951 in cash, other receivables, prepaid expenses, copyrights, equipment and our total liabilities were \$2,149,078 comprised of \$1,109,595 in accrued liabilities, \$25,000 in accrued officer salaries, Rophe Medical Technologies Inc. acquisition costs payable of \$525, obligations under capital leases of \$77,940, deposit for shares to be issued of \$230,000, convertible promissory note of \$500,376, short term loans of \$85,122, deferred revenue of \$24,990 and loan of \$95,530.

Cash used in operating activities amounted to \$430,895 during the three months ended March 31, 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 three months period ended March 31, 2013.

Cash provided by financing activities during the three months ended March 31, 2013 amounted to \$205,997 and represented proceeds from shares to be issued of \$230,000, proceeds from loans payable of \$6,325, net of payments of obligations under capital lease obligations of \$30,328.

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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 were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are 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.

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.

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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 | |
| 10.1 | Option Agreement. | SB-2 | 3/05/07 | 10.1 | |
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| 10.3 | Agreement with Rophe Medical Technologies Inc. dated December 11, 2009. | 10-K | 3/31/10 | 10.2 | |
| 10.3 | 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 | 5/24/10 | 10.5 | |
| 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 | |
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| 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 | |
| 10.15 | Agreement with Mary Kricfalusi. | 8-K | 11/19/10 | 10.1 | |

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| 10.16 | Agreement with Herb Adams. | 8-K | 11/19/10 | 10.2 |
| 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 |

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| 10.19 | Termination of Employment Agreement with John Cecil. | 8-K | 2/22/11 | 10.2 | |
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| 10.25 | Agreement with Watt International Inc. | 10-K | 5/18/2011 | 10.4 | |
| 10.26 | Pilot EMR Agreement with Nexus Health Management Inc. | 10-K | 5/18/2011 | 10.5 | |
| 14.1 | Code of Ethics. | 10-K | 4/15/08 | 14.1 | |
| 16.1 | Letter from Kempisty & Company | 8-K | 10/27/09 | 16.1 | |
| 16.2 | Letter from MaloneBailey, LLP | 8-K | 3/02/11 | 16.1 | |
| 21.1 | List of Subsidiary Companies. | 10-K | 3/31/10 | 21.1 | |
| 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 |

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| 101.CALXBRL Taxonomy Extension – Calculations. | X |
| 101.DEF XBRL Taxonomy Extension – Definitions. | X |
| 101.LABXBRL Taxonomy Extension – Labels. | X |
| 101.PRE XBRL Taxonomy Extension – Presentation. | X |

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized on this 15th day of May, 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

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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 | |
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