

Kallo Inc.
Form 10-Q
November 14, 2017

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, 2016

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)

225 Duncan Mills Road
Suite 504
Toronto, Ontario
Canada M3B 3H9
(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 (§§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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large Accelerated Filer
Non-accelerated Filer
Emerging Growth Company

Accelerated Filer
Smaller Reporting Company

(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: 9,907,548,954 as of October 11, 2017.

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KALLO INC.
JUNE 30, 2016

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

KALLO INC.

Consolidated Balance Sheets

(Amounts expressed in US dollars)

(Unaudited)

| | June 30, 2016 | December 31, 2015 |
|---|------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$277 | \$4,998 |
| Prepaid expenses | 102,058 | 132,259 |
| Total Current Assets | 102,335 | 137,257 |
| Deposit – long term | - | 20,627 |
| Equipment, net | - | 135,551 |
| TOTAL ASSETS | \$102,335 | \$293,435 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$2,135,325 | \$1,204,942 |
| Derivative liabilities | 268,073 | 210,834 |
| Convertible promissory notes, net of discount of \$34,396 and \$69,568 respectively | 250,234 | 204,826 |
| Convertible loans payable – third parties | 185,998 | 105,395 |
| Short term loans payable | 16,856 | 15,730 |
| Convertible loans payable – related parties | 592,569 | 272,712 |
| Deferred lease inducement | 8,826 | 15,380 |
| Total Current Liabilities | 3,457,881 | 2,029,819 |
| Convertible promissory notes, net of discount of \$Nil and \$59,939 respectively | - | 24,551 |
| TOTAL LIABILITIES | 3,457,881 | 2,054,370 |
| Commitments and Contingencies | | |
| Stockholders' Deficiency | | |
| Preferred stock, \$0.00001 par value, 100,000,000 shares authorized, 95,000,000 Series A preferred shares issued and outstanding | 950 | 950 |
| Common stock, \$0.00001 par value, 15,000,000,000 shares authorized, 12,583,742,772 and 5,648,390,746 shares issued and outstanding, respectively | 125,838 | 56,485 |
| Additional paid-in capital | 30,920,972 | 30,324,674 |
| Accumulated deficit | (34,403,306) | (32,143,044) |
| Total Stockholders' Deficiency | (3,355,546) | (1,760,935) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$102,335 | \$293,435 |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Consolidated Statements of Operations

(Amounts expressed in US dollars)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating Expenses | | | | |
| General and administration | \$1,070,197 | \$4,502,348 | \$1,682,258 | \$5,545,760 |
| Selling and marketing | 24,216 | 78,435 | 24,624 | 123,549 |
| Impairment of assets | 104,018 | - | 104,018 | - |
| Depreciation | 15,767 | 11,700 | 31,533 | 20,354 |
| Operating loss | (1,214,198) | (4,592,483) | (1,842,433) | (5,689,663) |
| Interest and financing costs | (128,805) | (248,334) | (194,219) | (421,943) |
| Change in fair value of derivative liabilities | (103,033) | 320,177 | (145,462) | 28,167 |
| Foreign exchange (loss) gain | (6,594) | (14,294) | (78,148) | 17,090 |
| Loss on extinguishment of short term loan payable and convertible promissory note | - | (83,344) | - | (83,344) |
| Net loss | \$(1,452,630) | \$(4,618,278) | \$(2,260,262) | \$(6,149,693) |
| Basic and diluted net loss per share | \$(0.00) | \$(0.01) | \$(0.00) | \$(0.02) |
| Weighted average shares used in calculating Basic and diluted net loss per share | 7,720,485,653 | 421,868,092 | 7,021,636,272 | 404,600,778 |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Consolidated Statements of Cash Flows

(Amounts expressed in US dollars)

(Unaudited)

| | Six Months Ended | |
|--|-------------------|--------------------|
| | June 30, | |
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$(2,260,262) | \$(6,149,693) |
| Adjustment to reconcile net loss to cash used in operating activities: | | |
| Depreciation | 31,533 | 20,354 |
| Stock based compensation | 448,500 | 3,414,000 |
| (Gain) Loss on extinguishment of short term loan payable and convertible promissory note | - | 83,344 |
| Non cash consulting fees | - | 240,125 |
| Change in fair value of derivative liabilities | 145,462 | (28,167) |
| Impairment of assets | 104,018 | - |
| Interest and penalties | 98,600 | - |
| Deferred lease inducement | (6,554) | (10,270) |
| Amortization of debt discount | 95,111 | 405,528 |
| Unrealized foreign exchange loss | 38,251 | 27,087 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in other receivables | - | 1,000 |
| (Increase) decrease in prepaid expenses and deposit | 50,828 | 44,929 |
| Increase (decrease) in accounts payable and accrued liabilities | 930,315 | (160,313) |
| NET CASH USED IN OPERATING ACTIVITIES | (324,198) | (2,112,076) |
| CASH FLOWS FROM INVESTING ACTIVITY | | |
| Purchase of equipment | - | (210,426) |
| NET CASH USED IN INVESTING ACTIVITY | - | (210,426) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | - | 1,763,230 |
| Proceeds from convertible promissory notes | - | 456,628 |
| Proceeds from other convertible notes (\$264,053 from related parties) | 319,409 | - |
| Repayment of loans payable | - | (53,540) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 319,409 | 2,166,318 |
| Effect of exchange rate changes on cash | 68 | 2,868 |
| NET DECREASE IN CASH | (4,721) | (153,316) |
| CASH - BEGINNING OF PERIOD | 4,998 | 250,339 |
| CASH - END OF PERIOD | \$277 | \$97,023 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |

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| | | |
|---|-----------|-----------|
| Income tax paid | \$- | \$- |
| Interest paid | \$- | \$- |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Conversion of promissory notes into common shares | \$217,151 | \$62,748 |
| Convertible loan payable for expenses paid directly by lender | \$5,434 | \$- |
| Initial debt discount on convertible promissory notes | \$- | \$461,580 |
| Accounts payable for equipment | \$- | \$308,984 |
| Stock issued for settlement of accounts payable | \$- | \$171,362 |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 1 – BUSINESS AND GOING CONCERN

Organization

Kallo Inc. ("Kallo" or the "Company") develops customized health care solutions designed to improve or enhance the delivery of care in the countries and regions we serve.

Going Concern

The accompanying unaudited 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 and a working capital deficit at June 30, 2016. The Company is expected to incur additional losses as it executes its go to market strategy. This raises substantial doubt about the Company's ability to continue as a going concern.

The Company has met its historical working capital requirements from the sale of common shares and short term loans. 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. 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 consolidated financial statements of the Company have been prepared in conformity 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 consolidated financial statements should be read in conjunction with the annual audited consolidated 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, 2015.

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 consolidated financial statements for fiscal year ended December 31, 2015 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 consolidated financial statements.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of fiscal year 2019 using one of two retrospective application methods or a cumulative effect approach. The Company is evaluating the potential effects on the consolidated financial statements.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

In February 2016, the FASB issued an ASU related to the accounting for leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. This pronouncement is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the impact that the new standard will have on its consolidated financial statements.

NOTE 3 – COMMON STOCK

During the six months period ended June 30, 2016, the holders of promissory notes converted the principal and the related interest outstanding of \$128,928 into 2,450,352,026 shares. The fair value of the derivative liability associated with the notes that were converted, \$88,223 was reclassified to equity upon conversion. Therefore the Company recorded \$217,151 in conjunction with the conversions.

During the six months period ended June 30, 2016, the Board of Directors approved the issuance of 4,485,000,000 common shares to various directors and employees for a total amount of \$448,500. On September 12, 2016, the Company rescinded its decision to issue the 4,485,000,000 common shares to various directors and employees.

On September 26, 2012, the Company entered into an investment agreement with Kodiak Capital Group, LLC ("Kodiak") whereby the company could issue shares 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. In connection therewith, the Company filed a Form S-1 registration statement with the Securities and Exchange Commission registering for sale up to 50,000,000 common shares. The previous arrangement with Kodiak expired in April 2014, but on July 15, 2014, the Company and Kodiak amended the investment agreement to extend the agreement through December 31, 2015. During the six months period ended June 30, 2015, the Company put \$172,362 and 6,250,000 shares were issued pursuant to the above Agreement.

During the six months period ended June 30, 2015, the Company issued 37,654,440 shares for cash of \$1,591,048 and 117,308,500 shares valued at \$3,654,125 to directors, employees and other consultants for services rendered. The Company also converted convertible promissory notes of \$62,748 into 2,343,130 shares and eliminated \$27,617 of the derivative liabilities associated with the convertible notes. In addition, 1,557,840 shares were issued as settlement of accounts payable of \$88,018, resulting in a loss on extinguishment of \$83,344.

NOTE 4 – RELATED PARTY TRANSACTIONS

During the six months period ended June 30, 2016, \$264,053 was received from a director and an affiliate of the Company and is included in the convertible loans payable to related parties. As at June 30, 2016, the total outstanding notes from the director and the affiliate is \$592,569, including accrued interest.

Included in accounts payable and accrued liabilities is an amount of \$151,344 due to directors of the Company as at June 30, 2016.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 5 – CONVERTIBLE PROMISSORY NOTES AND DERIVATIVE LIABILITIES

The convertible promissory notes are unsecured and bear interest at between 8% and 12% per annum with all principal and accrued interest due and payable between one and two years from the dates of execution of the Notes. The Notes are due and were issued as disclosed in the following table. The Holders of the Notes can, 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 disclosed. The following table represents the remaining notes outstanding as at June 30, 2016:

| Face amount | Interest rate | Due date | Conversion price per share |
|------------------------------|---------------|-------------------|--|
| Promissory note of \$100,000 | 10% | December 21, 2015 | 65% of lowest trading day over the last 15 trading days |
| Promissory note of \$50,000 | 8% | October 5, 2015 | 60% of the lowest trading price over the last 15 trading days |
| Promissory note of \$87,500 | 8% | January 15, 2016 | 70% of average of two lowest closing bid price over the last 15 trading days |
| Promissory note of \$55,000 | 8% | February 11, 2016 | 60% of the lowest trading price over the last 15 trading days |
| Promissory note of \$50,000 | 12% | February 3, 2017 | 65% of the lowest trading price over the last 25 trading days |
| Promissory note of \$50,000 | 8% | June 8, 2017 | 65% of the lowest trading price over the last 20 trading days |

During the period ended June 30, 2016, there were no new promissory notes. On June 30, 2016, all the derivative liabilities were valued at \$268,073 which resulted in a loss in fair value of \$145,462 for the period ended June 30, 2016. The debt discounts are amortized over the terms of the respective Notes and were \$95,111 at June 30, 2016 and, together with interest and penalties of \$54,674 on the promissory notes, are included in net finance charge of \$194,219 for the period ended June 30, 2016 included in the consolidated statement of operations. The fair value of the embedded conversion feature is estimated at the end of each quarterly reporting period using the Multinomial lattice model.

The following table illustrates the fair value adjustments that were recorded related to the level 3 derivative liabilities, associated with the convertible promissory notes:

| | |
|--|------------------|
| | June 30, 2016 |
| Fair value as at Beginning of Period | \$210,834 |
| New promissory notes | - |
| Elimination associated with conversion of promissory notes | (88,223) |
| Change in fair value loss (gain) | 145,462 |
| Fair value as at End of Period | \$268,073 |

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 5 – CONVERTIBLE PROMISSORY NOTES AND DERIVATIVE LIABILITIES (continued)

A summary of the promissory notes is as follows:

| | June 30, 2016 | June 30, 2015 |
|-----------------------------------|------------------|------------------|
| Balance as at Beginning of Period | \$229,377 | \$16,175 |
| New convertible promissory notes | - | 503,611 |
| Original issue discount | - | (46,983) |
| Interest and Penalties | 54,674 | - |
| Derivative liabilities | - | (461,580) |
| Converted into shares | (128,928) | (35,131) |
| Amortization of debt discount | 95,111 | 405,528 |
| Balance as at End of Period | \$250,234 | \$381,620 |
| Convertible notes – short term | (250,234) | (364,072) |
| Convertible notes – long term | \$- | 17,548 |

Convertible promissory notes are accounted for at fair value by level within the fair value hierarchy at June 30, 2016 and December 31, 2015 as follows:

| June 30, 2016 | Level 1 | Level 2 | Level 3 | Total |
|------------------------|------------|------------|-----------|-----------|
| Liabilities: | | | | |
| Derivative liabilities | \$ - | \$ - | \$268,073 | \$268,073 |

| December 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|------------------------|------------|------------|-----------|-----------|
| Liabilities: | | | | |
| Derivative liabilities | \$ - | \$ - | \$210,834 | \$210,834 |

NOTE 6 – CONVERTIBLE LOANS PAYABLE

| | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| Convertible promissory notes bearing interest at 15% per annum – third party | \$185,998 | \$105,395 |
| Convertible promissory notes bearing interest at 15% per annum – related parties | 592,569 | 272,712 |

\$778,567 \$378,107

During the six month period ended June 30, 2016, \$319,409 was received in cash for Convertible loans payable which bear 15% interest per annum and are convertible at a fixed price at any time during the 1 year term. The company has the option to pay the note at any time. The company analyzed the conversion option for derivative accounting consideration under ASC Topic 815-40, Derivatives and Hedging – Contract in Entity's Own Stock and concluded that the embedded conversion was a derivative but the fair value of the feature was immaterial. The total outstanding notes from this debt offering is \$778,567, including accrued interest, of which \$592,569 is to from related parties. Interest of \$43,926 on the convertible loans payable are included in net finance charge of \$194,219 for the period ended June 30, 2016 included in the consolidated statement of operations.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 7 – SHORT TERM LOANS PAYABLE

| | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| Non-interest bearing short term funding from third parties | \$ 16,856 | \$ 15,730 |
| | \$ 16,856 | \$ 15,730 |

As at June 30, 2016, the balance of \$16,856 represented short term funding provided by third parties which are non-interest bearing, unsecured and have no fixed repayment date. The amount in Canadian dollars is \$21,772 which is subject to revaluation at the end of each quarter.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Operating lease

The Company has a sublease agreement to lease office facilities under an operating lease for a term of two and a half years. The Company's future base and additional rental payment obligations under the lease commitments are as follows:

| | |
|------|------------|
| 2016 | \$ 135,486 |
| | \$ 135,486 |

Sales commission agreement

On January 23, 2014, Kallo Inc. announced the signing of a US\$200,000,925 Supply Contract with the Ministry of Health and Public Hygiene of the Republic of Guinea (the "Guinea Project"). The Guinea Project is contingent on adequate financing to be obtained by the Government of the Republic of Guinea and this is still ongoing.

Under the Supply Contract, Kallo will implement customized healthcare delivery solutions for the Republic of Guinea. The components of the solutions include, MobileCare, RuralCare, Hospital Information Systems, Telehealth Systems, Pharmacy Information, disaster management, air and surface patient transportation systems and clinical training.

In respect of the Guinea Project mentioned, the Company has agreed with two third parties in Guinea to pay sales commissions for facilitating and securing the Contract with the Ministry of Health of the Republic of Guinea as follows:

-equal to \$20,000,000, payable as to an advance of \$300,000 immediately after the loan agreement for the Kallo MobileCare and RuralCare program is signed by the Minister of Finance of the Republic of Guinea and the

remainder within 7 to 14 business days of receipt of payment for the Project by Kallo in proportion to the payments received by Kallo.

equal to \$4,000,000, payable within 7 to 14 business days of receipt of payment for the Project by Kallo in proportion to the payments received by Kallo. In addition, a performance incentive payment of \$1,000,000 will be payable to three persons related to the third party in accordance to the same terms of payment described herein.

On March 8, 2014, the Company has agreed with a third party to pay sales commissions equal to \$25,000,000 for facilitating and securing the Contract with the Government of the Republic of Sierra Leone, payable within 7 to 14 business days of receipt of payment for the Project by Kallo in proportion to the payments received by Kallo.

Agreements with suppliers

The Company has entered into agreements with a number of service providers for licensing of software and other professional services to be rendered. The total remaining amount committed is \$2,926,527.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Amounts expressed in US dollars)

(Unaudited)

NOTE 9 – SUBSEQUENT EVENTS

Cancellation of share issuance

On September 12, 2016, the Company rescinded its decision to issue 4,485,000,000 common shares to various directors and employees. These shares have been recorded during the quarter ended June 30, 2016 for a total compensation cost of \$448,500.

Convertible promissory notes

After June 30, 2016, promissory notes for a total of \$39,644 were converted into 720,806,182 common shares and promissory notes for a total of \$320,000 were settled in cash by FE Pharmacy Inc. under the agreement mentioned below.

Convertible loans payable

After June 30, 2016, a total of \$31,409 was received as advances against loans which will have the same terms as described in note 6.

Reverse stock split

On April 18, 2017, the Board of Directors approved a reverse stock split of the authorized and outstanding shares of common stock on a 1 for 600 basis, after which, the authorized number of common stock will decrease from 15,000,000,000 to 25,000,000. After the completion of the reverse stock split, the Board of Directors approved the increase of the authorized number of common stock from 25,000,000 to 1,150,000,000. As FINRA has not yet approved the reverse stock split yet, it is not effective yet. Therefore, the common share and per common share data in these financial statements and related notes hereto have not been retroactively adjusted to account for the effect of the reverse stock split for all periods presented prior to April 18, 2017.

After the approval of the reverse stock split by FINRA, the 9,907,548,954 common shares outstanding as at October 11, 2017, will be adjusted to 16,512,582 post reverse stock split common shares. Also, 1,086,186,667 post reverse stock split common shares will be issued to make whole for the shares issued after April 18, 2017, as detailed below.

Agreement with FE Pharmacy Inc.

On April 8, 2017, the Company entered into an agreement with FE Pharmacy Inc., a company controlled by a shareholder of Kallo and a related party, whereby in consideration for the issuance of 475,000,000 post reverse stock split common stock of Kallo, FE Pharmacy Inc. assumed and will pay all of the Company's outstanding indebtedness as at April 7, 2017. Because FINRA has not approved the reverse stock split yet, the 475,000,000 shares issued during the quarter ended June 30, 2017 will be reduced to 791,667 when the reverse stock split becomes effective and 474,208,333 additional post reverse stock split shares will be issued to make them whole again.

Subsequently, FE Pharmacy, Inc. settled Kallo's convertible promissory notes for a total of \$320,000 in cash and Kallo's accounts payable for a total of \$57,325 in cash.

Issuance of shares

On May 25, 2017, the Company approved the issuance of 595,000,000 post reverse stock split common stock to various directors and employees as compensation for services rendered and 16,000,000 post reverse stock split common stock to a controlling shareholder of FE Pharmacy Inc. and a related party as compensation for services rendered and for nominal cash. Because FINRA has not approved the reverse stock split yet, the 611,000,000 shares issued during the quarter ended June 30, 2017 will be reduced to 1,018,333 when the reverse stock split becomes effective and 609,981,667 additional post reverse stock split shares will be issued to make them whole again.

On July 5, 2017, the Company approved the issuance of 2,000,000 post reverse stock split common stock to a consultant for assistance in helping settle the outstanding convertible promissory notes of Kallo. Because FINRA has not approved the reverse stock split yet, the 2,000,000 shares issued during the quarter ended June 30, 2017 will be reduced to 3,333 when the reverse stock split becomes effective and 1,996,667 additional post reverse stock split shares will be issued to make them whole again.

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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. All funds are reflected in United States dollars unless otherwise indicated.

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 our bills. This is because we have generated no revenues from our operations during the last seven years. We have been able to remain in business as a result of investments, in debt or equity securities, by our officers and directors and by other unrelated parties. 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 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 five fiscal years, starting January 2010, our management and board of directors have raised funds through a personal and professional network of 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. These options include, debt and equity offers to existing shareholders, debt and equity offers to independent investment professionals and through various other financing alternatives. Management's opinion is that the combination of the three options along with the forecasted closing of at least one project will enable continued operations for the next 12 months. There is no assurance that we will receive additional money from these options and our existing shareholders are under no legal duty to provide us with additional financing nor have our shareholders committed to provide us with additional financing.

On April 8, 2017, the Company entered into an agreement with FE Pharmacy Inc. whereby in consideration for the issuance of 475,000,000 post reverse stock split common stock of Kallo, FE Pharmacy Inc. will assume and pay all of the Company's outstanding indebtedness as at April 7, 2017. Management believes that with this agreement in place, it can concentrate on bringing the potential projects as detailed below to fruition and any additional funding can be met through one of the three options mentioned above.

On January 23, 2014, we announced the signing of a US\$200,000,925 (Two Hundred million nine hundred and twenty-five US dollars) Supply Contract with the Ministry of Health and Public Hygiene of the Republic Of Guinea. On April 14, 2015, the Minister of Health and Public Hygiene, in a letter confirmed the selection of Kallo Inc., as supplier pursuant to the MobilCare™ Supply Contract, to design and build specialized hospitals in the regions of Conakry, Kindia, Labe, Kankan and Nzerekore, and asked Kallo to mobilize its technical teams for site visits to engage in preliminary studies for the construction of these hospitals. No equipment has been sold under the terms of this supply contract. There is no assurance any equipment will be purchased under this supply contract.

In addition to the primary supply contract, on April 6, 2015, the Government of Guinea signed an addendum to the agreement expanding the project by \$54,916,600.

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Under the Supply Contract, Kallo will implement an integrated healthcare delivery solution for the Republic of Guinea. The components of the solution include, MobileCare, RuralCare, Hospital Information Systems, Telehealth Systems, Pharmacy Information, disaster management, air and surface patient transportation systems and clinical training.

On August 12, 2015, we submitted a proposal for National Healthcare Standardization program. The Memorandum of Understanding process has been completed and approved by the Minister of Health and the Prime Minister's office. On Wednesday April 27th, 2016 the MOU was signed between Kallo and the Government of Cameroon. The next step includes a detailed analysis of the healthcare infrastructure currently in place. As part of the MOU, there is an immediate need for support of a sporting event taking place in Cameroon in late 2016.

There is no assurance that any of the foregoing projects will ever be initiated.

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. Because of the speculative nature of our operations and the nature of the African countries we are attempting to do business with, there is no assurance that any of the planned operations will occur.

We continue to develop components of Kallo Integrated Delivery System:

Kallo Integrated Delivery System (KIDS)

MobileCareTM – a mobile trailer that opens into a state of the art clinical setup in a vehicle equipped with the latest technology in healthcare. More than just a facility, MobileCareTM 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.

RuralCareTM – prefabricated modular healthcare units focused in rural areas where no roads infrastructure is available. They are equipped to provide primary healthcare including X-Ray, ultrasound, surgery, pharmacy and lab services. Ranging from 1,200 to 3,800 square feet, these clinics can be up and running in disaster zones or rural areas in as little as one week. Similar to the MobileCareTM product, RuralCareTM also utilizes satellite communications to access the Telehealth system.

Kallo's healthcare mission is to "reach the unreachable". The end-to-end solution includes the following:

Global response center – located in the Kallo headquarters in Canada, this is the escalation point for the coordination of delivery of Telehealth and eHealth support. It consists of both the Clinical Command Center and the Administrative Command Center

Regional response centers, Clinical and Administrative Command centers – located in the urban area hospitals and connected with satellite communications, these centers coordinate all aspects of the healthcare delivery solution with the Mobile clinics and Rural clinics including clinical services, Telehealth services, pharmacy and medical consumable coordination as well as escalations to the Global response center

Kallo University – provides education, training and development of local resources for all aspects of the healthcare delivery which includes clinical, engineering and administration

Emergency Medical Services – provides ground and air ambulance vehicles for emergency patient transport

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Our end-to-end delivery solution is equipped with necessary medical equipment as per regional healthcare requirements. We also install our copyrighted software and third party software as required along with a 5 year support agreement renewable after the 5 year initial term that includes the medical equipment, software licenses, installation implementation and training. This generates an ongoing revenue stream for service, maintenance, spare-parts, and consumables.

Sales Go-To-Market Strategy

Our Sales Go-To-Market Strategy is segmented based on the varying needs of our customers in the following three categories:

Full solution with Kallo Integrated Delivery System (KIDS) – typically longer sales cycle and includes the end to end solution of Mobile Clinics, Rural Poly Clinics, Global and Regional response centers, Clinical and Administrative command centers, telehealth support, Kallo University training, pharmacy and medical consumable support and Emergency services with ground and air ambulance vehicles. This solution is focused on the end to end healthcare needs of developing countries.

Component Solutions – typically mid-term sales cycle and includes any of the components of the KIDS implementation without the full support structure. This strategy is focused on augmenting healthcare support where needed, such as, disaster management, North American First Nations, medical equipment supply, installation and testing.

Technology Solutions – typically short-term sales cycle and includes elements of the KIDS program that can enhance existing healthcare solutions. These would include our Hospital Management System, Consulting services, Bio Medical support, Mobile or Fixed Clinic manufacturing, etc. This strategy is focused on enhancing existing healthcare environments globally

Need for additional capital

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, 2016 or 2015.

Expenses

During the three months ended June 30, 2016 we incurred total expenses of \$1,452,630, including \$948,748 in salaries and compensation, \$15,767 in depreciation, \$39,056 in professional fees, \$24,216 in selling and marketing expenses,

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\$128,805 in interest and financing costs, \$103,033 in loss in fair value of derivative liabilities, \$104,018 impairment on assets, \$6,594 in loss on foreign exchange and \$82,393 as other expenses whereas during the three months ended June 30, 2015 we incurred total expenses of \$4,618,278, including \$3,844,241 in salaries and compensation, \$11,700 in depreciation, \$550,606 in professional fees, \$78,435 in selling and marketing expenses, \$248,334 in interest and financing costs and \$205,139 in other expenses, net of \$320,177 gain in change in fair value on derivative liabilities.

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Our professional fees consist of legal, consulting, accounting and auditing fees. The decrease in our total expenses for the three months ended June 30, 2016 from the comparative period is mainly due to a decrease in salaries and compensation of \$2,895,493, a decrease in professional fees of \$511,550, a decrease in interest and financing costs of \$119,529 and a decrease in other expenses of \$122,746, offset by a negative swing in change in fair value of derivative liabilities of \$423,210 and an impairment of assets of \$104,018. The decrease in professional fees and salaries and compensation was due to significant curtailing of operations as the new contracts that Kallo was expecting did not materialize. The salaries and compensation would have decreased further, had the Company not approved the issuance of common stock to directors and employees during the quarter, which caused a non-cash stock based compensation of \$448,500. The Company rescinded its decision to issue those shares during the quarter ended September 30, 2016. Also equipment was fully written off as it became evident after the quarter that the Company would not be able to continue operations as usual. The decrease in interest and financing costs is due to lower convertible promissory notes as these were converted into shares.

During the six months ended June 30, 2016 we incurred total expenses of \$2,260,262, including \$1,390,747 in salaries and compensation, \$31,533 in depreciation, \$94,627 in professional fees, \$24,624 in selling and marketing expenses, \$194,219 in interest and financing costs, \$145,462 in loss in fair value of derivative liabilities, \$104,018 impairment on assets, \$78,148 in loss on foreign exchange and \$196,884 as other expenses whereas during the six months ended June 30, 2015 we incurred total expenses of \$6,149,693, including \$4,284,975 in salaries and compensation, \$20,354 in depreciation, \$1,054,420 in professional fees, \$123,549 in selling and marketing expenses, \$421,943 in interest and financing costs and \$272,619 in other expenses, net of \$28,167 gain in change in fair value on convertible promissory notes.

Our professional fees consist of legal, consulting, accounting and auditing fees. The decrease of \$2,894,228 in salaries and compensation and \$959,793 in professional fees is due to significant curtailing of operations as the new contracts that Kallo was expecting did not materialize. There is also a decrease in interest and financing costs of \$227,724 offset by impairment on assets of \$104,018 and a negative swing in change in fair value of \$173,629 on the convertible promissory.

Net Loss

During the three months ended June 30, 2016 we did not generate any revenues and incurred a net loss of \$1,452,630 compared to a net loss of \$4,618,278 during the same period in 2015. The main reasons were the decreases in salaries and compensation and professional fees for the reasons discussed above.

During the six months ended June 30, 2016 we did not generate any revenues and we incurred a net loss of \$2,260,262 compared to a net loss of \$6,149,693 during the same period in 2015. The main reasons were the decreases in salaries and compensation and professional fees for the reasons discussed above.

Liquidity and capital resources

As at June 30, 2016, the Company had current assets of \$102,335 and current liabilities of \$3,457,881, indicating working capital deficiency of \$3,355,546. As of June 30, 2016, our total assets were \$102,335 in cash and prepaid expenses and our total liabilities were \$3,457,881 comprised of \$2,135,325 in accounts payable and accrued liabilities, \$268,073 in derivative liabilities, \$250,234 in convertible promissory notes, convertible loans payable of \$778,567, short term loans of \$16,856 and deferred lease inducement of \$8,826.

Cash used in operating activities amounted to \$324,198 during the six months ended June 30, 2016, primarily as a result of the net loss adjusted for non-cash items and various changes in operating assets and liabilities.

There was no cash used in investing activities during the current six months period ended June 30, 2016.

Cash provided by financing activities during the six months ended June 30, 2016 amounted to \$319,409 and represented proceeds from issuance of convertible loans payable.

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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.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were not effective as of the end of the period covered by this report due to lack of segregation of duties in financial reporting and presence of adjusting journal entries during the audit.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2016 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.

There are no pending lawsuits.

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 FormDate | Filed Number herewith |
|---------|--|--|-----------------------------|
| 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 |
| 3.3 | Amended Articles of Incorporation (11/23/2015) | 8-K 12/02/15 | 3.1 |
| 4.1 | Specimen Stock Certificate | SB-2 3/05/07 | 4.1 |
| 10.1 | Agreement with Rophe Medical Technologies Inc. dated December 11, 2009 | 10-K 3/31/10 | 10.2 |
| 10.2 | Amended Agreement with Rophe Medical Technologies Inc. dated December 18, 2009 | 10-K 3/31/10 | 10.3 |
| 10.3 | Amended Agreement with Rophe Medical Technologies Inc. dated March 16, 2010 | 10-K 3/31/10 | 10.4 |
| 10.4 | Investment Agreement with Kodiak Capital Group, LLC dated October 20, 2014 | S-1 10/30/14 | 10.6 |
| 10.5 | Amended Agreement with Jarr Capital Corp. | 8-K 2/22/11 | 10.1 |
| 10.6 | Termination of Employment Agreement with John Cecil | 8-K 2/22/11 | 10.2 |
| 10.7 | Termination of Employment Agreement with Vince Leitao | 8-K 2/22/11 | 10.3 |
| 10.8 | Termination of Employment Agreement with Samuel Baker | 8-K 2/22/11 | 10.4 |
| 10.9 | Services Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K 5/18/11 | 10.1 |
| 10.10 | Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K 5/18/11 | 10.2 |
| 10.11 | Agreement with Mansfield Communications Inc. | 10-K 5/18/11 | 10.3 |
| 10.12 | Agreement with Watt International Inc. | 10-K 5/18/11 | 10.4 |
| 10.13 | Pilot EMR Agreement with Nexus Health Management Inc. | 10-K 5/18/11 | 10.5 |
| 10.14 | 2011 Non-Qualified Stock Option Plan | S-8 6/27/11 | 10.1 |

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|-------|--|-----|----------|------|
| 10.15 | Multimedia Contractual Agreement with David Miller | 8-K | 10/28/11 | 10.1 |
| 10.16 | Strategic Alliance Agreement with Petro Data Management Services Limited and Gateway Global Fabrication Ltd. | 8-K | 11/02/11 | 10.1 |
| 10.17 | Independent Contractor Agreement with Savers Drug Mart | 8-K | 1/26/12 | 10.1 |

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| 10.18 | 2012 Non-Qualified Stock Option Plan | S-8 | 9/06/12 | 10.1 | |
| 10.19 | Memorandum of Offering with Ministry of Health of Republic of Ghana | S-1/A-3 | 6/26/13 | 10.32 | |
| 10.20 | Addendum to Investment Agreement with Kodiak | S-1/A-4 | 7/31/13 | 10.33 | |
| 10.21 | Second Addendum to Investment Agreement with Kodiak | S-1 | 8/25/14 | 10.34 | |
| 10.22 | Email from Kodiak | S-1/A-1 | 9/24/14 | 10.35 | |
| 10.23 | Email from Kodiak | S-1/A-1 | 9/24/14 | 10.36 | |
| 14.1 | Code of Ethics | S-1 | 8/25/14 | 14.2 | |
| 16.1 | Letter from Collins Barrow Toronto LLP | 8-K/A-12 | 15/12 | 16.3 | |
| 16.2 | Letter from Schwartz Levitsky Feldman LLP | 8-K/A-38 | 13/14 | 16.1 | |
| 21.1 | List of Subsidiary Companies | 10-K | 3/31/10 | 21.1 | |
| <u>31.1</u> | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| <u>32.1</u> | 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 | |
| 99.3 | FCPA Code | S-1 | 8/25/14 | 99.3 | |
| 99.4 | Letter from Ministry of Health | 8-K | 6/08/15 | 99.2 | |
| 99.5 | Letter from Minister of Health and Public Hygiene | 8-K | 6/24/15 | 99.2 | |
| 101.INS | XBRL Instance Document | | | | |
| 101.SCH | XBRL Taxonomy Extension – Schema | | | | |
| 101.CAL | XBRL Taxonomy Extension – Calculations | | | | |
| 101.DEF | XBRL Taxonomy Extension – Definitions | | | | |
| 101.LAB | XBRL Taxonomy Extension – Labels | | | | |
| 101.PRE | XBRL Taxonomy Extension – Presentation | | | | |

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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 November, 2017.

KALLO INC.
(The "Registrant")

BY: JOHN CECIL

John Cecil

President, Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer, and a Chairman of the Board of Directors

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