

Kallo Inc.
Form 10-Q
August 12, 2011

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, 2011
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-53183

KALLO INC.
Formerly, Diamond Technologies 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
(telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: Kallo Inc. - Form 10-Q

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

(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:

43,085,166 as of August 9, 2011.

TABLE OF CONTENTS

		Page
<u>PART I.</u>		
<u>Item 1.</u>	Financial Statements.	3
	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets</u>	F-1
	<u>Condensed Consolidated Statements of Operations</u>	F-2
	<u>Condensed Consolidated Changes in Statements of Stockholders' Equity (Deficiency)</u>	F-3
	<u>Condensed Consolidated Statements of Cash Flows</u>	F-4
	<u>Notes to Condensed Consolidated Financial Statements</u>	F-5
<u>Item 2.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations.	12
<u>Item 3.</u>	Quantitative and Qualitative Disclosures About Market Risk.	15
<u>Item 4.</u>	Controls and Procedures.	15
<u>PART II.</u>		
<u>Item 1.</u>	Legal Proceedings.	15
<u>Item 1A.</u>	Risk Factors.	15
<u>Item 6.</u>	Exhibits.	16
<u>Signatures</u>		18
<u>Exhibit Index</u>		19

-2-

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash	\$ 10,311	\$ 59,169
Prepaid expenses	8,900	8,900
Total Current Assets	19,211	68,069
Copyrights	865,000	865,000
Equipment, net	209,145	210,658
Deferred Financing Costs	66,064	66,064
TOTAL ASSETS	\$ 1,159,420	\$ 1,209,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accrued liabilities - other	\$ 774,181	\$ 271,376
Accrued officers' salaries	116,250	116,250
Acquisition cost payable (Note 5)	56,502	56,502
Loans payable (Note 7)	606,503	42,000
Current portion of obligations under capital leases (Note 6)	133,986	96,759
Total Current Liabilities	1,687,422	582,887
Obligations Under Capital Leases (Note 6)	132,176	145,877
TOTAL LIABILITIES	1,819,598	728,764
Commitments and Contingencies (Note 6)		
Going Concern (Note 1)		
Stockholders' Equity (Deficiency) (Notes 2 and 3)		
Preferred stock, \$0.00001 par value, none issued and outstanding	-	-
Common stock, \$0.00001 par value, 500,000,000 shares authorized, 43,085,166 and 39,085,166 shares issued and outstanding at June 30, 2011 and December 31, 2010	432	392
Additional paid-in capital	5,300,093	4,900,133
Deficit accumulated during the development stage	(5,960,703)	(4,419,498)

Total Stockholders' Equity (Deficiency)	(660,178)	481,027
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,159,420	\$ 1,209,791

See accompanying notes to the unaudited condensed consolidated financial statements

F-1

-3-

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		December 12, 2006 (inception) to June 30, 2011
	2011	2010	2011	2010	
Revenue	\$ -	\$ -	\$ -	\$ -	\$ 15,887
Cost of Revenue	-	-	-	-	12,840
Gross Profit	-	-	-	-	3,047
Expenses					
General and administration	450,751	217,446	718,218	313,417	4,346,430
Selling and marketing	71,349	-	267,829	-	360,669
Software development costs	31,005	-	469,805	-	1,131,282
Foreign exchange loss	554	-	13,367	1,016	21,129
Depreciation	22,545	781	41,292	1,567	63,307
Interest	25,552	194	30,694	194	34,403
Loss on disposal of equipment	-	-	-	-	6,530
	601,756	218,421	1,541,205	316,194	5,963,750
Net Loss	\$ (601,756)	\$ (218,421)	\$ (1,541,205)	\$ (316,194)	\$ (5,960,703)
Basic and diluted net loss per share					
	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.01)	
Weighted average shares used in calculating Basic and diluted net loss per share					
	43,085,166	24,005,166	42,775,774	23,828,049	

See accompanying notes to the unaudited condensed consolidated financial statements

F-2

-4-

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)

Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficiency)
For the six month period ended June 30, 2011 and the period December 12, 2006 (inception) through December 31, 2010

	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)	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Sale of common shares	-	-	15,000,000	150	(100)	-	50
Net loss	-	-	-	-	-	(18,500)	(18,500)
Balance December 31, 2006 (unaudited)	-	-	15,000,000	150	(100)	(18,500)	(18,450)
Sale 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
Sale 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
Sale of common shares	-	-	1,133,664	12	170,038	-	170,050
Sale of units, consisting of common shares and common share warrants	-	-	1,580,000	16	394,984	-	395,000

Edgar Filing: Kallo Inc. - Form 10-Q

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 (Audited)	-	-	39,085,166	392	4,900,133	(4,419,498)	481,027
Sale of common shares	-	-	4,000,000	40	399,960	-	400,000
Net Loss	-	-	-	-	-	(1,541,205)	(1,541,205)
Balance June 30, 2011 (Unaudited)	-	\$ -	43,085,166	\$ 432	\$ 5,300,093	\$ (5,960,703)	\$ (660,178)

See accompanying notes to the unaudited condensed consolidated financial statements

F-3

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,		December 12, 2006 (inception) to June 30, 2011
	2011	2010	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	\$ (1,541,205)	\$ (316,194)	\$ (5,960,703)
Adjustment to reconcile net loss to cash used in operating activities:			
Depreciation	41,292	1,567	63,307
Stock based compensation	399,600	-	3,175,977
Loss on disposal of equipment	-	-	6,530
Non-cash interest accrued	5,927	-	5,927
Changes in operating assets and liabilities:			
Increase/(Decrease) in prepaid expenses	-	-	(8,900)
Increase/(Decrease) in accrued liabilities and officers' salaries	503,815	172,634	1,280,519
NET CASH USED IN OPERATING ACTIVITIES	(590,571)	(141,993)	(1,437,343)
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)	-	(28,810)	41,957
Proceeds from sale of common stock	400	170,050	862,566
Deferred financing costs	-	-	(26,064)
Repayment of obligations under capital leases	(23,190)	-	(23,190)
Proceeds from loans payable	564,503	-	606,503
NET CASH PROVIDED BY FINANCING ACTIVITIES	541,713	141,240	1,461,772
NET (DECREASE) INCREASE IN CASH	(48,858)	(753)	10,311
CASH - BEGINNING OF PERIOD	59,169	2,969	-
CASH - END OF PERIOD	\$ 10,311	\$ 2,216	\$ 10,311

SUPPLEMENTAL CASH FLOW
INFORMATION

Income tax paid	\$	-	\$	-
Interest paid	\$	8,851	\$	-

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	\$	39,467	\$	-	\$	224,959

See accompanying notes to the unaudited condensed consolidated financial statements

F-4

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
(unaudited)

NOTE 1 – OPERATIONS AND BASIS OF PRESENTATION

Organization

Kallo Inc. (the “Company”), formerly, Diamond Technologies, Inc. (“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 closed 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 January 14, 2011, Kallo Inc. was incorporated in Nevada and merged into Diamond Technologies Inc., at which point the Company changed its name to Kallo Inc.

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 (Note 6) 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.

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. However, the Company has incurred operating losses since inception and has an accumulated deficit of \$5,960,703 at June 30, 2011 (December 31, 2010 - \$4,419,498). The Company will continue to incur losses as it develops its products and marketing channels during 2011.

The Company has met its historical working capital requirements from the sale of common shares and loans from an officer/stockholder. In order to not burden the Company, the officer/stockholder has agreed to provide funding to the Company to pay its annual audit fees, filing costs and legal fees as long as the board of directors deems it necessary. However, there can be no assurance that such financial support shall be ongoing or available on terms or conditions acceptable to the Company. The Company has retained the services of a financial advisor to help it raise new financing (Note 8). This factor 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.

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, 2010.

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, 2010 as reported in the 10-K have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited condensed consolidated financial statements.

F-5

KALLO INC.
 (formerly Diamond Technologies, Inc.)
 (A Development Stage Company)
 Notes to Condensed Consolidated Financial Statements
 (unaudited)

NOTE 1 – OPERATIONS AND BASIS OF PRESENTATION (continued)

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements. The ASU removes the presentation options in Accounting Standard Codification Topic 220 and requires entities to report components of comprehensive income in either 1) a continuous statement of comprehensive income or 2) two separate but consecutive statements. The ASU, which does not change the items that must be reported in other comprehensive income or their accounting treatment, is effective for the Company beginning in the first quarter of 2012.

In March 2011, accounting standards update on “Troubled Debt Restructuring” was issued. The update clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011. The Company does not believe that this new pronouncement will have a material impact on its operations.

NOTE 2 – STOCKHOLDERS’ EQUITY

Common Stock

On January 14, 2011 the Company sold 4,000,000 shares of its common stock at \$0.0001 per share to its CEO for proceeds of \$400. Because the sale price was below the quoted stock price of \$0.10 per share at the time, the Company considered \$399,600 as compensation and recorded the amount as stock based compensation with a corresponding credit to additional paid-in-capital.

NOTE 3 – WARRANTS

Warrant activity for the year ended December 31, 2010 and the six months ended June 30, 2011 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2009	-	-
Granted	1,580,000 \$	0.50
Cancelled	-	-
Exercised	-	-
Balance, December 31, 2010 and June 30, 2011	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 and expire on December 31, 2011.

The value of the stock purchase warrants 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%.

F-6

-8-

KALLO INC.
 (formerly Diamond Technologies, Inc.)
 (A Development Stage Company)
 Notes to Condensed Consolidated Financial Statements
 (unaudited)

NOTE 4 – RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2011, 4,000,000 shares were issued to a director and officer of the Company for cash consideration of \$400 (Note 2) and \$14,318 was paid to a director of the Company for legal fees and disbursements. 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 5 – 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 for total purchase price of \$1,565,000 (the "Rophe Acquisition"). The \$1,200,000 was initially payable as follows: \$50,000 within 30 days of the date of the agreement; \$200,000 on March 31, 2010; \$250,000 on April 30, 2010; \$233,333 on launch of Project 1; \$233,333 on launch of Project 2; and, \$233,334 on launch of Project 3. This transaction was closed on December 31, 2009.

Subsequently, the Rophe Acquisition payment terms were amended and 3,000,000 additional shares of restricted common stock were issued in 2009 as payment for \$400,000 with the remaining cash consideration as follows: \$35,000 by March 5, 2010, \$65,000 by March 31, 2010, \$233,333 on launch of Project 1; \$233,333 on launch of Project 2; and, \$233,334 on launch of Project 3. As at June 30, 2011, there is a payable in the amount of \$56,502. The 3,000,000 shares were considered issued as at the closing date of the 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.

NOTE 6 – 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,		
2011	\$	36,718
2012		12,239
Total	\$	48,957

Capital lease

Minimum lease payments on capital lease obligations are as follows:

Edgar Filing: Kallo Inc. - Form 10-Q

Year ending December 31,		
2011	\$	108,025
2012		104,203
2013		86,836
		299,064
Less: imputed interest		(32,902)
	\$	266,162

F-7

-9-

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
(unaudited)

NOTE 6 – COMMITMENTS & CONTINGENCIES (continued)

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 \$69,200 was paid during the six months ended June 30, 2011 (2010 - \$28,000). The remaining balance of \$115,800 is due in 2011.

Contingencies

A past officer of the Company has entered into an action against the Company to recover compensation due for a minimum of five years for a total amount of \$915,765. The claim includes recovery of past compensation for services rendered, as well as future compensation due for a minimum of five years resulting from a breach of contract. The Company denies that it has any liability to the past officer under any of the claims in the complaint and intends to defend itself vigorously in the suit. Management has recognized an accrual of approximately \$100,000 relating to the portion of the past compensation. For the remainder, management believes the suit is without merit due to the uncertainty of the outcome and the inability to estimate the loss and will accordingly, recognize the remainder loss when incurred, if any.

NOTE 7 – LOANS PAYABLE

A loan payable of \$25,000 bears interest at 12% per annum, accrued and payable quarterly, is unsecured and is payable on December 31, 2011. The holders have the option to convert the loan into common stock of the Company at the rate of \$0.15 per share.

A loan payable of \$17,000 bears interest at 12% per annum, is unsecured and is payable on demand.

Loans payable of \$564,503 bear interest at 12% per annum, are unsecured and are payable within three months from the date of the loans. If the loans are not paid on the due dates, the loans are automatically renewed for another term of three months.

NOTE 8 – CAPITAL RAISE

On November 8, 2010, the Company signed an agreement to retain the services of JARR Capital Corp. (“JARR Capital”) to act as its exclusive financial adviser and fiscal agent in connection with raising financing of an amount of \$4,000,000 (the “Transaction”) and helping the Company to complete the acquisition of a service-based, valued-business enterprise. Subsequently, on February 17, 2011, the agreement was amended to increase the offering up to \$5,000,000 at a price of \$0.15 per unit. Each unit will be comprised of one (1) share of common stock and one-half (1/2) warrant. Each whole warrant will allow the warrant holder to purchase one additional share of common stock at an exercise price of \$1.00 per share. The compensation payable to JARR Capital by the Company pursuant to this agreement is:

a)

an engagement fee (“Work Fee”) of \$65,000 which was due and payable upon the signing of the above letter of agreement, to be paid with \$25,000 in cash and the \$40,000 in common stock at the same valuation terms as the Transaction;

F-8

-10-

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
(unaudited)

NOTE 8 – CAPITAL RAISE (continued)

- b) a success fee (“Success Fee”), less amounts paid under (a) above, payable at closing of the Transaction which is equal to:
 - i. 10% of the principal amount of equity financing raised, 7% in cash and 3% in common stock under the same terms as the Transaction. In the case of parties introduced by the Company and who have already expressed interest in providing financing to the Company, JARR Capital will receive a Success Fee in respect of such investment at the reduced rate of five percent (5%) without common stock, only if the support of JARR Capital is called upon or required in connection to such investment;
 - ii. 5% of the principal amount of any mezzanine or subordinated debt raised payable in cash on closing; and
 - iii. 2% of the principal amount of any senior, secured debt raised (including lease financing, equipment financing and asset-backed financing), payable in cash on closing. Operating leases will be exempt from any fees, unless such financing assistance is requested in writing by the Company;
- c) 2% on the assets acquired through any acquisition by the Company or any of its subsidiaries or affiliates;
- d) 5% of the principal amount of equity financing in warrants, issued at closing of the Transaction; and
- e) If the Transaction is not completed because of an alternative transaction as defined, the compensation payable to JARR Capital by the Company will be 2% of the alternative transaction consideration.

On June 22, 2011, the Company amended further the agreement entered into with JARR Capital Corp. on November 8, 2010 to provide for the payment of compensation to JARR Capital as provided for in the November 8, 2010 initial agreement upon JARR Capital successfully placing convertible debentures with non-US persons outside the United States of America.

JARR Capital is working on raising the financing as per the above agreement.

NOTE 9 – COMPARATIVE

The unaudited condensed consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current period.

F-9

-11-

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

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.

We are a Medical information company that uses technology to assist physicians and healthcare providers to streamline patient information in a coherent and usable manner. Our software is designed to take patient medical information from many sources and deposit it into a single source as electronic medical records (EMR) for each patient. In addition to our EMR product, we have three early stage products for which we plan to evaluate partnership opportunities in order to further develop and commercialize them.

Our plan and focus during the next twelve months includes both selling our existing products as well as developing and possibly selling new products.

Our Sales and Marketing Strategy for existing developed products

As of the date of this report, we have not sold any products, nor do we have any customers. We hope to initiate operations within the next 90 days. Our milestones during the next twelve months are:

- 1 - Developing our sales and marketing organization for 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
- 2 – Simultaneously with the build-up of our sales and marketing organization, we will build a product support team that will provide installation, training and customer support.
- 3 – Expanding our market from the larger metropolitan areas to the smaller rural and more distant medical facilities.

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.

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.

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 doctor's 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.

C&ID-IMS - our Communicable and Infectious Diseases Information Management System technology.

CCG - our Clinical-Care Globalization technology.

MC-Telehealth - our Mobile Clinic or tele-health technology.

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 in Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 915. We have been in the development stage since our inception. We have had no substantial recurring source of revenue; we have incurred operating losses since inception and at June 30, 2011 had a working capital deficiency of \$1,668,211.

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 stockholders.

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 new 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 locate and negotiate agreements with manufacturers to offer their products for sale to us at pricing that will enable us to establish and sell the products to our clientele.

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 stockholders.

Results of operations

Revenues

We did not generate any revenues during the six months ended June 30, 2011 or 2010. From our inception on December 12, 2006 to June 30, 2011 we generated \$15,887 in revenues.

Expenses

During the three months ended June 30, 2011 we incurred total expenses of \$601,756, including \$179,033 in salaries and compensation, 31,005 in research and development costs, \$22,545 in depreciation, \$165,926 in professional fees and \$71,349 in selling marketing expenses and \$131,898 as other expenses whereas during the three months ended June 30, 2010 we incurred total expenses of \$218,421, including \$158,219 in salaries and compensation, \$781 in depreciation, \$56,585 in professional fees, and \$2,836 in other expenses. Our professional

fees consist of legal, consulting, accounting and auditing fees. The increase in our expenses for the three months ended June 30, 2011 from the comparative period is a reflection of the increase activities of the Company as we work towards the development and marketing of a new medical software technology.

During the six months ended June 30, 2011 we incurred total expenses of \$1,541,205, including \$266,120 in salaries and compensation, \$469,805 in research and development costs, \$41,292 in depreciation, \$276,703 in professional fees and \$267,829 in selling marketing expenses and \$219,456 as other expenses whereas during the six months ended June 30, 2010 we incurred total expenses of \$316,194, including \$158,219 in salaries and compensation, \$1,567 in depreciation, \$149,056 in professional fees, and \$7,352 in other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees. The increase in our expenses for the six months ended June 30, 2011 from the comparative period is a reflection of the increase activities of the Company as we work towards the development and marketing of a new medical software technology.

Net Loss

During the three months ended June 30, 2011 we did not generate any revenues and we incurred a net loss of \$601,756, compared to a net loss of \$218,421 during the same period in 2010.

During the six months ended June 30, 2011 we did not generate any revenues and we incurred a net loss of \$1,541,205, compared to a net loss of \$316,194 during the same period in 2010.

From our inception on December 12, 2006 to June 30, 2011 we incurred a net loss of \$5,960,703, \$4,346,430 of which was general and administration, \$1,131,282 of which was software development costs, \$360,669 of which was selling and marketing, \$63,307 of which was depreciation and \$59,015 of which was other expenses.

From Inception on December 12, 2006 to June 30, 2011

During the year 2007, we incorporated the company, hired the attorney and the auditor and began to negotiate contracts and sell printing related products.

During the year 2008 we continued sourcing products. We did not sell any products or services.

During the year 2009, we did not sell any products or services. We acquired all of the issued and outstanding shares of common stock of Rophe Medical Technologies, Inc.

During the year 2010, we relocated the Company's executive office to Markham, Ontario, changed the Company's name to Kallo Inc., cancelled various employment contracts with previous officers and obtained forgiveness of debt from several directors and officers for compensation and debt owing to them. Our loss since inception is \$5,960,703.

Since inception, we sold 5,000,000 pre-dividend shares of common stock to our officers and directors for \$50; issued 490,500 pre-dividend shares of common stock at \$0.25 per share for a total of \$122,625; and issued 83,334 pre-dividend shares of common stock at \$0.60 per share for a total of \$50,000. Those shares were subsequently increased to reflect a 3 for 1 stock dividend declared on February 11, 2008.

In 2009, we sold 150,000 shares of common stock to our President for \$15,000. We issued 6,000,000 shares of common stock to Rophe Medical Technologies Inc. and incurred debt of \$100,000 for 300 common shares of Rophe.

In 2010, we sold 1,133,664 shares of common stock at \$0.15 per share for a total of \$170,050 and 1,580,000 units of the Company's common stock and common share warrant at \$0.25 per unit for gross proceeds of \$395,000. Each unit

comprised of one common share and one common share warrant. Each common share warrant is exercisable for a period of one year from the effective date of a registration statement filed with the SEC at a price of \$0.50 per share.

On August 18, 2010, we issued 13,500,000 common stock of the Company valued at \$3,375,000 for cash proceeds of \$1,350 to the directors and officers of the Company and stock based compensation of \$3,373,650.

-14-

On January 14, 2011 the Company sold 4,000,000 shares of its common stock at \$0.0001 per share to its CEO for cash proceeds of \$400 and stock based compensation of \$399,600.

Liquidity and capital resources

As at June 30, 2011, the Company had current assets of \$19,211 and current liabilities of \$1,687,422, indicating working capital deficiency of \$1,668,211. As of June 30, 2011, our total assets were \$1,159,420 in cash, copyrights, equipment and our total liabilities were \$1,819,598 comprised of \$774,181 in accrued liabilities, \$116,250 in accrued officer salaries, Rophe Medical Technologies Inc. acquisition costs payable of \$56,502, loans payable of \$606,503 and obligations under capital leases of \$266,162.

Cash used in operating activities amounted to \$590,571 during the six months ended June 30, 2011, 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 period.

Cash provided by financing activities during the six months ended June 30, 2011 amounted to \$541,713 and represented proceeds from loans received of \$564,503, proceeds from sale of common stock of \$400, net of payments under capital lease obligations of \$23,190.

In the first quarter of 2011, the Company issued 4,000,000 shares of its common stock at \$0.0001 per share to its CEO for cash proceeds of \$400 and stock based compensation of \$399,600.

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 June 30, 2011 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.

We are not a party to any pending litigation and none is contemplated or threatened other than the following: Leonard Steinmetz v. Kallo Inc., Case No. CV11-1133, pending in the United States District Court for the Eastern District of New York wherein Leonard Steinmetz, our former treasurer, principal financial officer, and principal accounting has filed suit for breach of his employment contract, breach of covenant of good faith and fair dealing, unjust enrichment, and quantum merit. As the date hereof, we have answered, denying the allegations of Mr. Steinmetz's complaint. We

believe Mr. Steinmetz's claims are without merit and we intend to defend the same vigorously.

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.

-15-

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	
10.1	Lease Agreement	SB-2	3/05/07	10.1	
10.2	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	
10.4	Amended Agreement with Rophe Medical Technologies Inc. dated March 16, 2010.	10-K	3/31/10	10.4	
10.5	Investment Agreement with Kodiak Capital Group, LLC.	S-1	5/24/10	10.5	
10.6	Registration Rights Agreement with Kodiak Capital Group, LLC.	S-1	5/24/10	10.6	
10.7	Consulting Agreement with Ten Associate LLC.	S-1	5/24/10	10.7	
10.8	Employment Agreement with Leonard Steinmetz.	S-1	5/24/10	10.8	
10.9	Employment Agreement with Samuel Baker.	S-1	5/24/10	10.9	
10.10	Employment Agreement with John Cecil.	S-1	5/24/10	10.10	
10.11	Employment Agreement with Mary Kricfalusi.	S-1	5/24/10	10.11	
10.12	Employment Agreement with Vince Leitao.	S-1	5/24/10	10.12	
10.13	Amended Consulting Agreement with Ten Associate LLC dated October 5, 2010.	8-K	10/14/10	10.13	

Edgar Filing: Kallo Inc. - Form 10-Q

10.14	Agreement with Jarr Capital Corp.	8-K	11/17/10	10.1
10.15	Agreement with Mary Kricfalusi.	8-K	11/19/10	10.1
10.16	Agreement with Herb Adams.	8-K	11/19/10	10.2
10.18	North American Authorized Agency Agreement with Advanced Software Technologies, Inc.	8-K	12/16/10	10.1

-16-

Edgar Filing: Kallo Inc. - Form 10-Q

10.19	Amended Agreement with Jarr Capital Corp.	8-K	2/22/11	10.1	
10.20	Termination of Employment Agreement with John Cecil.	8-K	2/22/11	10.2	
10.21	Termination of Employment Agreement with Vince Leitao.	8-K	2/22/11	10.3	
10.22	Termination of Employment Agreement with Samuel Baker.	8-K	2/22/11	10.4	
10.23	Services Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/2011	10.1	
10.24	Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/2011	10.2	
10.25	Agreement with Mansfield Communications Inc.	10-K	5/18/2011	10.3	
10.26	Agreement with Watt International Inc.	10-K	5/18/2011	10.4	
10.27	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	
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	

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 11th day of August, 2011.

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

EXHIBIT INDEX

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

Edgar Filing: Kallo Inc. - Form 10-Q

10.15	Agreement with Mary Kricfalusi.	8-K	11/19/10	10.1
10.16	Agreement with Herb Adams.	8-K	11/19/10	10.2
10.18	North American Authorized Agency Agreement with Advanced Software Technologies, Inc.	8-K	12/16/10	10.1
10.19	Amended Agreement with Jarr Capital Corp.	8-K	2/22/11	10.1

-19-

Edgar Filing: Kallo Inc. - Form 10-Q

10.20	Termination of Employment Agreement with John Cecil.	8-K	2/22/11	10.2	
10.21	Termination of Employment Agreement with Vince Leitao.	8-K	2/22/11	10.3	
10.22	Termination of Employment Agreement with Samuel Baker.	8-K	2/22/11	10.4	
10.23	Services Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/2011	10.1	
10.24	Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd.	10-K	5/18/2011	10.2	
10.25	Agreement with Mansfield Communications Inc.	10-K	5/18/2011	10.3	
10.26	Agreement with Watt International Inc.	10-K	5/18/2011	10.4	
10.27	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	
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	

