

Kallo Inc.
Form 10-Q
May 19, 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 MARCH 31, 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

Accelerated Filer

Non-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:

43,085,166 as of May 18, 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> | | |
| Item 1. | Legal Proceedings. | 16 |
| <u>Item 1A.</u> | Risk Factors. | 16 |
| <u>Item 6.</u> | Exhibits. | 16 |
| <u>Signatures</u> | | 19 |
| <u>Exhibit Index</u> | | 20 |

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

| | March 31, 2011 | December 31, 2010 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 43,338 | \$ 59,169 |
| Prepaid expenses | 8,900 | 8,900 |
| Total Current Assets | 52,238 | 68,069 |
| Copyrights | 865,000 | 865,000 |
| Equipment, net | 191,462 | 210,658 |
| Deferred Financing Costs | 66,064 | 66,064 |
| TOTAL ASSETS | \$ 1,174,764 | \$ 1,209,791 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accrued liabilities - other | \$ 456,092 | \$ 271,376 |
| Accrued officers' salaries | 116,250 | 116,250 |
| Acquisition cost payable (Note 5) | 56,502 | 56,502 |
| Loans payable (Note 7) | 378,600 | 42,000 |
| Current portion of obligations under capital leases (Note 6) | 80,310 | 96,759 |
| Total Current Liabilities | 1,087,754 | 582,887 |
| Obligations Under Capital Leases (Note 6) | 145,432 | 145,877 |
| TOTAL LIABILITIES | 1,233,186 | 728,764 |
| Commitments and Contingencies (Note 6) | | |
| Going Concern (Note 1) | | |
| Shareholders' Equity (Deficiency) (Note 3) | | |
| Preferred stock, \$0.00001 par value, none issued and outstanding | - | - |
| Common stock, \$0.00001 par value, 100,000,000 shares authorized, 43,085,166 and 39,085,166 shares issued and outstanding at March 31, 2011 and December 31, 2010 | 432 | 392 |

Edgar Filing: Kallo Inc. - Form 10-Q

| | | |
|--|--------------|--------------|
| Additional paid-in capital | 5,300,093 | 4,900,133 |
| Deficit accumulated during the development stage | (5,358,947) | (4,419,498) |
| Total Shareholders' Equity (Deficiency) | (58,422) | 481,027 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,174,764 | \$ 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 March 31, | | December 12, 2006 (inception) to March 31, 2011 |
|--|---------------------------------|-------------|---|
| | 2011 | 2010 | |
| Revenue | \$ - | \$ - | \$ 15,887 |
| Cost of Revenue | - | - | 12,840 |
| Gross Profit | - | - | 3,047 |
| Expenses | | | |
| General and administration | 267,467 | 95,971 | 3,895,679 |
| Selling and marketing | 196,480 | - | 289,320 |
| Software development costs | 438,800 | - | 1,100,277 |
| Foreign exchange loss | 12,813 | 1,016 | 20,575 |
| Depreciation | 18,747 | 786 | 40,762 |
| Interest | 5,142 | - | 8,851 |
| Loss on disposal of equipment | - | - | 6,530 |
| | 939,449 | 97,773 | 5,361,994 |
| Net Loss | \$ (939,449) | \$ (97,773) | \$ (5,358,947) |
| Basic and diluted net loss per share | | | |
| | \$ (0.02) | \$ (0.00) | |
| Weighted average shares used in calculating | | | |
| Basic and diluted net loss per share | 42,462,944 | 24,005,166 | |

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 three month period ended March 31, 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 | - | - | - | - | - | (939,449) | (939,449) |
| Balance March 31, 2011 (Unaudited) | - | \$ - | 43,085,166 | \$ 432 | \$ 5,300,093 | \$ (5,358,947) | \$ (58,422) |

See accompanying notes to the unaudited condensed consolidated financial statements

F-3

- 5 -

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

| | Three Months Ended March 31, | | December 12, 2006 (inception) to March 31, 2011 |
|--|---------------------------------|------------------|--|
| | 2011 | 2010 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Loss | \$ (939,449) | \$ (97,773) | \$ (5,358,947) |
| Adjustment to reconcile net loss to cash used in operating activities: | | | |
| Depreciation | 18,747 | 786 | 40,762 |
| Stock compensation | 399,600 | - | 3,175,977 |
| Loss on disposal of equipment | | - | 6,530 |
| Changes in operating assets and liabilities: | | | |
| Increase/(Decrease) in prepaid expenses | - | - | (8,900) |
| Increase/(Decrease) in accrued liabilities | 185,165 | (31,154) | 961,869 |
| NET CASH USED IN OPERATING ACTIVITIES | (335,937) | (128,141) | (1,182,709) |
| 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) | - | (40,312) | 41,957 |
| Proceeds from sale of common stock | 400 | 170,050 | 862,566 |
| Deferred financing costs | - | | (26,064) |
| Repayment of obligations under capital leases | (16,894) | | (16,894) |
| Proceeds from loans payable | 336,600 | | 378,600 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 320,106 | 129,738 | 1,240,165 |
| NET (DECREASE) INCREASE IN CASH | (15,831) | 1,597 | 43,338 |
| CASH - BEGINNING OF PERIOD | 59,169 | 2,969 | - |

Edgar Filing: Kallo Inc. - Form 10-Q

| | | | |
|---|-----------|----------|------------|
| CASH - END OF PERIOD | \$ 43,338 | \$ 4,566 | \$ 43,338 |
| 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 | \$ - | \$ - | \$ 224,959 |

See accompanying notes to the unaudited condensed consolidated financial statements

F-4

- 6 -

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 \$5,358,947 at March 31, 2011. 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.

F-5

- 7 -

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)

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 consolidated financial statements.

Recent Accounting Pronouncements

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 three months ended March 31, 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 March 31, 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 quarter ended March 31, 2011, 4,000,000 shares were issued to a director and officer of the Company for cash consideration of \$400 and \$14,318 was paid to a director of the Company.

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 March 31, 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 | \$ | 55,077 |
| 2012 | | 12,239 |
| Total | \$67,316 | |

Capital lease

Minimum lease payments on capital lease obligations are as follows:

| Year ending December 31, | | |
|--------------------------|----|--------|
| 2011 | \$ | 88,355 |

Edgar Filing: Kallo Inc. - Form 10-Q

| | |
|------------------------|------------|
| 2012 | 92,286 |
| 2013 | 72,136 |
| | 252,777 |
| Less: imputed interest | (27,035) |
| | \$ 225,742 |

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 \$39,200 was paid during the quarter ended March 31, 2011 (2010 - \$28,000). The remaining balance of \$145,800 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 \$336,600 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 advisor 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.

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

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

There is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay out our bills. This is because we have not generated substantial revenues and do not anticipate generating on-going revenue until we complete the development of our website and engage suppliers and customers to buy our products.

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 Statement of Financial Accounting Standards No. 7. We have been in the development stage since our inception. We have had no substantial recurring source of revenue; we have incurred operating losses since inception and at March 31, 2011 had a working capital deficiency of \$1,035,516.

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

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

Limited operating history; need for additional capital

There is no historical financial information about us upon which to base an evaluation of our performance. We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a 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 shareholders.

Results of operations

Revenues

We did not generate any revenues during the three months ended March 31, 2011 or 2010. From our inception on December 12, 2006 to March 31, 2011 we generated \$15,887 in revenues.

Expenses

During the three months ended March 31, 2011 we incurred total expenses of \$939,449, including \$85,046 in salaries and compensation, \$438,800 in research and development costs, \$18,747 in depreciation, \$127,761 in professional fees and \$196,480 in selling marketing expenses and \$72,615 as other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees.

During the three months ended March 31, 2010 we incurred total expenses of \$97,773, including \$27,360 in salaries and compensation, \$786 in depreciation, \$65,111 in professional fees, and \$4,516 in other expenses. The increase in our expenses for the three months ended March 31, 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 March 31, 2011 we did not generate any revenues and we incurred a net loss of \$939,449, compared to a net loss of \$97,773 during the same period in 2010.

From our inception on December 12, 2006 to March 31, 2011 we incurred a net loss of \$5,358,947, \$3,895,679 of which was general and administration, \$1,100,277 of which was software development costs, \$289,320 of which was selling and marketing, \$40,762 of which was depreciation and \$32,909 of which was other expenses.

From Inception on December 12, 2006 to March 31, 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 \$5,358,947.

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.

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 March 31, 2011, the Company had current assets of \$52,238 and current liabilities of \$1,087,754, indicating working capital deficiency of \$1,035,516. As of March 31, 2011, our total assets were \$1,174,764 in cash, copyrights, equipment and our total liabilities were \$1,233,186 comprised of \$456,092 in accrued liabilities, \$116,250 in accrued officer salaries, Rophe Medical Technologies Inc. acquisition costs payable of \$56,502, loans payable of \$378,600 and obligations under capital leases of \$225,742.

Cash used in operating activities amounted to \$335,937 during the first quarter of 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 year.

Cash provided by financing activities during the first quarter of 2011 amounted to \$320,106 and represented proceeds from loans received of \$336,600, proceeds from sale of common stock of \$400, net of payments under capital lease obligations of \$16,894.

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 March 31, 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.

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 | |

Edgar Filing: Kallo Inc. - Form 10-Q

| | | | | |
|------|--|-----|---------|------|
| 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 |

Edgar Filing: Kallo Inc. - Form 10-Q

| | | | | |
|-------|--|------|-----------|-------|
| 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 |
| 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 |
| 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 |
| 16.1 | Letter from Kempisty & Company | 8-K | 10/27/09 | 16.1 |

16.2 Letter from MaloneBailey, LLP 8-K 3/02/11 16.1

- 17 -

| | | | | | |
|------|---|------|---------|------|---|
| 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 18th day of May, 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 |

- 20 -

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 | |
| 16.1 | Letter from Kempisty & Company | 8-K | 10/27/09 | 16.1 | |
| 16.2 | Letter from MaloneBailey, LLP | 8-K | 3/02/11 | 16.1 | |
| 21.1 | List of Subsidiary Companies. | 10-K | 3/31/10 | 21.1 | |
| 31.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 99.1 | Audit Committee Charter. | 10-K | 4/15/08 | 99.1 | |
| 99.2 | Disclosure Committee Charter. | 10-K | 4/15/08 | 99.2 | |

