

Kallo Inc.
Form 10-Q
November 14, 2017

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

FORM 10-Q

QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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

Commission file number 000-53183

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

NEVADA
(State or other jurisdiction of incorporation or organization)

225 Duncan Mills Road,
Suite 504
Toronto, Ontario
Canada M3B 3H9
(Address of principal executive offices, including zip code.)

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

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

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

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

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Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller Reporting Company
Emerging Growth Company
(Do not check if smaller
reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicated the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,907,548,954 as of November 14, 2017.

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KALLO INC.
JUNE 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

KALLO INC.

Consolidated Balance Sheets

(Amounts expressed in US dollars)

(Unaudited)

| | June 30, 2017 | December 31, 2016 |
|---|------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Prepaid expenses | 35,748 | 57,011 |
| Total Current Assets | 35,748 | 57,011 |
| TOTAL ASSETS | \$35,748 | \$57,011 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Bank overdraft | \$- | \$211 |
| Accounts payable and accrued liabilities | 3,101,602 | 2,731,879 |
| Derivative liabilities | 25,087 | 270,581 |
| Convertible promissory notes, net of discount of \$Nil and \$8,872 respectively | 19,723 | 324,586 |
| Convertible loans payable – third parties | 210,951 | 191,510 |
| Short term loans payable | 16,708 | 16,215 |
| Convertible loans payable – related parties | 707,871 | 615,163 |
| Liability for issuable shares | 139,053 | - |
| Deferred lease inducement | - | 1,260 |
| Total Current Liabilities | 4,220,995 | 4,151,405 |
| TOTAL LIABILITIES | 4,220,995 | 4,151,405 |
| Commitments and Contingencies | | |
| Stockholders' Deficiency | | |
| Preferred stock, \$0.00001 par value, 100,000,000 shares authorized, 95,000,000 Series A preferred shares issued and outstanding | 950 | 950 |
| Common stock, \$0.00001 par value, 15,000,000,000 shares authorized, 9,905,548,954 and 8,098,742,772 shares issued and outstanding, respectively | 99,056 | 80,988 |
| Additional paid-in capital | 40,323,656 | 30,965,822 |
| Assignment of liabilities | (3,806,946) | - |
| Accumulated deficit | (40,801,963) | (35,142,154) |
| Total Stockholders' Deficiency | (4,185,247) | (4,094,394) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$35,748 | \$57,011 |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Consolidated Statements of Operations

(Amounts expressed in US dollars)

(Unaudited)

| | Three Months Ended June 30, | | Six months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating Expenses | | | | |
| General and administration | \$5,423,306 | \$1,070,197 | \$5,650,079 | \$1,682,258 |
| Selling and marketing | 2,437 | 24,216 | 2,940 | 24,624 |
| Impairment of assets | - | 104,018 | - | 104,018 |
| Depreciation | - | 15,767 | - | 31,533 |
| Operating loss | (5,425,743) | (1,214,198) | (5,653,019) | (1,842,433) |
| Interest and financing costs | (53,623) | (128,805) | (112,016) | (194,219) |
| Change in fair value on derivative liabilities | (6,347) | (103,033) | (3,012) | (145,462) |
| Gain on extinguishment of derivative liability | 227,196 | - | 227,196 | - |
| Foreign exchange loss | (89,507) | (6,594) | (118,958) | (78,148) |
| Net Loss | \$(5,348,024) | \$(1,452,630) | \$(5,659,809) | \$(2,260,262) |
| Basic and diluted net loss per share | \$(0.00) | \$(0.00) | \$(0.00) | \$(0.00) |
| Weighted average shares used in calculating Basic and diluted net loss per share | 9,410,988,514 | 7,720,485,653 | 8,971,813,510 | 7,021,636,272 |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Consolidated Statements of Cash Flows

(Amounts expressed in US dollars)

(Unaudited)

| | Six months Ended | |
|---|------------------|-------------------|
| | June 30, | |
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$(5,659,809) | \$(2,260,262) |
| Adjustment to reconcile net loss to cash used in operating activities: | | |
| Depreciation | - | 31,533 |
| Stock based compensation | 5,318,964 | 448,500 |
| Change in fair value on derivative liabilities | 3,012 | 145,462 |
| Gain on extinguishment of derivative liability | (227,196) | - |
| Impairment of assets | - | 104,018 |
| Interest and penalties | 101,164 | 106,687 |
| Deferred lease inducement | (1,260) | (6,554) |
| Amortization of debt discount | 8,872 | 87,024 |
| Unrealized foreign exchange loss | 29,764 | 38,251 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in prepaid expenses and deposit | 21,263 | 50,828 |
| Increase (decrease) in accounts payable and accrued liabilities | 404,965 | 930,315 |
| NET CASH USED IN OPERATING ACTIVITIES | (261) | (324,198) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short term loans payable | 472 | - |
| Decrease in bank indebtedness | (211) | - |
| Proceeds from other convertible notes (\$150,556 from related parties in 2016) | - | 319,409 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 261 | 319,409 |
| Effect of exchange rate changes on cash | - | 68 |
| NET (DECREASE) INCREASE IN CASH | - | (4,721) |
| CASH - BEGINNING OF PERIOD | - | 4,998 |
| CASH - END OF PERIOD | \$- | \$277 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Income tax paid | \$- | \$- |
| Interest paid | \$- | \$- |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Conversion of promissory notes into common shares | \$60,954 | \$217,151 |
| Convertible loan payable for expenses paid directly by lender | \$27,151 | \$- |
| Stock issued to related party for current and future settlement of accounts payable and convertible debts | \$4,135,037 | \$- |
| Settlement of promissory notes and accounts payable by FE Pharmacy, Inc. | \$328,091 | \$- |

See accompanying notes to the unaudited consolidated financial statements

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts expressed in US dollars)

(Unaudited)

NOTE 1 – BUSINESS AND GOING CONCERN

Organization

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

Going Concern

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The amounts of assets and liabilities in the consolidated financial statements do not purport to represent realizable or settlement values. The Company has incurred operating losses since inception and has an accumulated deficit and a working capital deficit at June 30, 2017. The Company is expected to incur additional losses as it executes its go to market strategy. This raises substantial doubt about the Company's ability to continue as a going concern.

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

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X related to smaller reporting companies. These unaudited consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes, which are included as part of the Company's Form 10-K filed with the SEC for the year ended December 31, 2016.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. Notes to the financial statements which substantially duplicate the disclosure contained in the audited consolidated financial statements for fiscal year ended December 31, 2016 as reported in the 10-K have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited consolidated financial statements.

Recently Adopted Accounting Pronouncements

Management does not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts expressed in US dollars)

(Unaudited)

NOTE 3 – COMMON STOCK

During the six months period ended June 30, 2017, the holders of promissory notes converted the principal and the related interest outstanding of \$39,644 into 720,806,182 shares. The fair value of the derivative liability associated with the notes that were converted, \$21,310 was reclassified to equity upon conversion. Therefore the Company recorded \$60,954 in conjunction with the conversions.

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

After the approval of the reverse stock split by FINRA, the 9,907,548,954 common shares outstanding as at October 11, 2017 will be adjusted to 16,512,582 post reverse stock split common shares. Also, 1,084,190,000 additional post reverse stock split common shares will be issued to make whole for the shares issued after April 18, 2017, as detailed below.

On April 8, 2017, the Company entered into an agreement with FE Pharmacy Inc., a company controlled by a shareholder of Kallo, and a related party, whereby in consideration for the issuance of 475,000,000 post reverse stock split common stock of Kallo, FE Pharmacy Inc. assumed and will pay all of the Company's outstanding indebtedness as at April 7, 2017. Because FINRA has not approved the reverse stock split yet, the 475,000,000 shares issued during the quarter ended June 30, 2017 will be reduced to 791,667 when the reverse stock split becomes effective and 474,208,333 additional post reverse stock split shares will be issued to make them whole again. The 475,000,000 shares issuable to FE Pharmacy Inc. has been valued at the book value of the total liabilities assigned to FE Pharmacy Inc. of \$4,135,037. The assignment of the liabilities to FE Pharmacy Inc. has been recorded as a receivable in the equity section of the consolidated balance sheet and will be reduced as the liabilities are settled by FE Pharmacy Inc. During the quarter ended June 30, 2017, the assignment of liabilities amount has been reduced by \$320,000 cash settlement of convertible promissory notes and \$8,091 cash settlement of accounts payable.

On May 25, 2017, the Company approved the issuance of 595,000,000 post reverse stock split common stock valued at \$5,179,678 to various directors and employees as compensation for services rendered and 16,000,000 post reverse stock split common stock valued at \$139,286 to a consultant as compensation for services rendered and for nominal cash. Because FINRA has not approved the reverse stock split yet, the 611,000,000 shares issued during the quarter ended June 30, 2017 will be reduced to 1,018,333 when the reverse stock split becomes effective and 609,981,667 additional post reverse stock split shares will be issued to make them whole again. It was determined that the unissued shares relating to the compensation for services to the consultant is a derivative under ASC 815 and therefore the related amount of \$139,053 is shown as a liability for issuable shares on the Consolidated Balance Sheet.

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

recorded \$217,151 in conjunction with the conversions.

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

NOTE 4 – RELATED PARTY TRANSACTIONS

During the six months period ended June 30, 2017, \$27,151 was received from a director and an affiliate of the Company and is included in the convertible loans payable to related parties.

Included in accounts payable and accrued liabilities is an amount of \$477,134 due to directors of the Company as at June 30, 2017.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts expressed in US dollars)

(Unaudited)

NOTE 5 – CONVERTIBLE PROMISSORY NOTES AND DERIVATIVE LIABILITIES

The convertible promissory notes are unsecured and bear interest at between 8% and 12% per annum with all principal and accrued interest due and payable between one and two years from the dates of execution of the Notes. The Notes are due and were issued as disclosed in the following table. The Holders of the Notes can, in lieu of payment of the principal and interest, elect to convert such amount into common shares of the Company at the conversion price per share disclosed. The following table represents the remaining note outstanding as at June 30, 2017:

| Face amount | Interest rate | Due date | Conversion price per share |
|-----------------------------|---------------|------------------|---|
| Promissory note of \$50,000 | 12% | February 3, 2017 | 65% of the lowest trading price over the last 25 trading days |

During the period ended June 30, 2017, there were no new promissory notes. On June 30, 2017, all the derivative liabilities were valued at \$25,087 which resulted in a loss in fair value of \$3,012 for the period ended June 30, 2017. The debt discounts are amortized over the terms of the respective Notes and were \$8,872 at June 30, 2017 and, together with interest and penalties of \$45,909 on the promissory notes, are included in net finance charge of \$112,016 for the period ended June 30, 2017 included in the consolidated statement of operations. The fair value of the embedded conversion feature is estimated at the end of each quarterly reporting period using the Multinomial lattice model.

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

| | |
|---|------------------|
| | June 30, 2017 |
| Fair value as at Beginning of Period | \$270,581 |
| Elimination associated with payment of the note in cash by FE Pharmacy Inc. | (227,196) |
| Elimination associated with conversion of promissory notes | (21,310) |
| Change in fair value loss (gain) | 3,012 |
| Fair value as at End of Period | \$25,087 |

A summary of the promissory notes is as follows:

| | June 30, 2017 | June 30, 2016 |
|-------------------------------------|------------------|------------------|
| Balance as at Beginning of Period | \$324,586 | \$229,377 |
| Interest and Penalties | 45,909 | 54,674 |
| Converted into shares | (39,644) | (128,928) |
| Settled by FE Pharmacy Inc. in cash | (320,000) | - |
| Amortization of debt discount | 8,872 | 95,111 |
| Balance as at End of Period | \$19,723 | \$250,234 |

| | | |
|--------------------------------|-----------|-----------|
| Convertible notes – short term | (19,723) | (250,234) |
| Convertible notes – long term | \$- | \$- |

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts expressed in US dollars)

(Unaudited)

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

Convertible promissory notes are accounted for at fair value by level within the fair value hierarchy at June 30, 2017 and December 31, 2016 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|----------|----------|
| June 30, 2017 | | | | |
| Liabilities: | | | | |
| Derivative liabilities | \$ - | \$ - | \$25,087 | \$25,087 |

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|-----------|-----------|
| December 31, 2016 | | | | |
| Liabilities: | | | | |
| Derivative liabilities | \$ - | \$ - | \$270,581 | \$270,581 |

NOTE 6 – CONVERTIBLE LOANS PAYABLE

| | June 30, 2017 | December 31, 2016 |
|--|------------------|-------------------------|
| Convertible promissory notes bearing interest at 15% per annum – third party | \$210,951 | \$191,510 |
| Convertible promissory notes bearing interest at 15% per annum – related parties | 707,871 | 615,163 |
| | \$918,822 | \$806,673 |

During the six month period ended June 30, 2017, \$27,151 was received in cash for Convertible loans payable which bear 15% interest per annum and are convertible at a fixed price at any time during the 1 year term. The company has the option to pay the note at any time. The company analyzed the conversion option for derivative accounting consideration under ASC Topic 815-40, Derivatives and Hedging – Contract in Entity's Own Stock and concluded that the embedded conversion was a derivative but the fair value of the feature was immaterial. The total outstanding notes from this debt offering is \$918,822, including accrued interest, of which \$707,871 is to from related parties. Interest of \$55,255 on the convertible loans payable are included in net finance charge of \$112,016 for the period ended June 30, 2017 included in the consolidated statement of operations.

NOTE 7 – SHORT TERM LOANS PAYABLE

| | June 30, 2017 | December 31, 2016 |
|--|------------------|-------------------------|
| Non-interest bearing short term funding from third parties | \$16,708 | \$16,215 |
| | \$16,708 | \$16,215 |

As at June 30, 2017, the balance of \$16,708 represented short term funding provided by third parties which are non-interest bearing, unsecured and have no fixed repayment date. The amount in Canadian dollars is \$22,016 which is subject to revaluation at the end of each quarter.

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KALLO INC.

Notes to Consolidated Financial Statements

June 30, 2017

(Amounts expressed in US dollars)

(Unaudited)

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Sales commission agreement

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

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

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

- equal to \$20,000,000, payable as to an advance of \$300,000 immediately after the loan agreement for the Kallo MobileCare and RuralCare program is signed by the Minister of Finance of the Republic of Guinea and the remainder within 7 to 14 business days of receipt of payment for the Project by Kallo in proportion to the payments received by Kallo.
- equal to \$4,000,000, payable within 7 to 14 business days of receipt of payment for the Project by Kallo in proportion to the payments received by Kallo. In addition, a performance incentive payment of \$1,000,000 will be payable to three persons related to the third party in accordance to the same terms of payment described herein.

On October 13, 2017, Kallo sent notices of termination of the agreements with the above two third parties to be effective 30 days later.

Agreements with suppliers

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

Contingencies

On April 21, 2017, an ex-employee of Kallo obtained a judgement ordering Kallo to pay Canadian \$135,959 for unpaid wages and expenses relating to services performed in 2016. The full amount has been accrued for in the financial statements of Kallo.

On October 24, 2016, a consultant obtained a judgement ordering Kallo to pay Canadian \$25,000 for unpaid fees. The full amount has been accrued for in the financial statements of Kallo.

NOTE 9 – SUBSEQUENT EVENTS

Issuance of shares

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

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

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

There is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay our bills. This is because we have generated no revenues from our operations during the last eight years. We have been able to remain in business as a result of investments, in debt or equity securities, by our officers and directors and by other unrelated parties. We expect to incur operating losses in the foreseeable future and our ability to continue as a going concern is dependent upon our ability to raise additional money through investments by others and achieve profitable operations. There is no assurance that we will be able to raise additional money or that additional money or that additional financing will be available to us on satisfactory terms or that we will be able to achieve profitable operations. The consolidated statements were prepared under the assumption that the Company will continue as a going concern, however, there can be no assurance that such financial support shall be ongoing or available on terms or conditions acceptable to the Company. This raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the last seven fiscal years, starting January 2010, our management and board of directors have raised funds through a personal and professional network of investors. This has enabled product and business development, continued operations, and generation of customer interest. In order to continue operations, management has contemplated several options to raise capital and sustain operations in the next 12 months. These options include, debt and equity offers to existing shareholders, debt and equity offers to independent investment professionals and through various other financing alternatives. Management's opinion is that the combination of the three options along with the forecasted closing of at least one project will enable continued operations for the next 12 months. There is no assurance that we will receive additional money from these options and our existing shareholders are under no legal duty to provide us with additional financing nor have our shareholders committed to provide us with additional financing.

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

On January 23, 2014, we announced the signing of a US\$200,000,925 (Two Hundred million nine hundred and twenty-five US dollars) Supply Contract with the Ministry of Health and Public Hygiene of the Republic Of Guinea. On April 14, 2015, the Minister of Health and Public Hygiene, in a letter confirmed the selection of Kallo Inc., as supplier pursuant to the MobilCare™ Supply Contract, to design and build specialized hospitals in the regions of Conakry, Kindia, Labe, Kankan and Nzerekore, and asked Kallo to mobilize its technical teams for site visits to engage in preliminary studies for the construction of these hospitals.

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

Under the Supply Contract, Kallo will implement an integrated healthcare delivery solution for the Republic of Guinea. The components of the solution include, MobileCare, RuralCare, Hospital Information Systems, Telehealth

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Systems, Pharmacy Information, disaster management, air and surface patient transportation systems and clinical training.

In 2017 the Government of Ghana initiated several discussions with Kallo Inc., to revisit how the Ministry of Defense – Military Hospital requirements, the Ministry of Health healthcare infrastructure requirements and the Ministry of Education Teaching Hospital infrastructure requirements can be met using the Kallo Integrated Delivery Model. The success of these discussions confirmed Ghana's continued belief in the Kallo Integrated Delivery System, as the best solution for the nations healthcare infrastructure development, which is very encouraging for our continued business in Ghana.

On 20th June, 2017, Kallo Inc.'s branch office was legally registered in Ghana. A valid tax identification number was issued and this number is to be used by Kallo in all of its transactions within Ghana. We have incorporated four SPVs (Special Purpose Vehicles / Companies) to oversee the various projects Kallo intends to operate in Ghana. The SPVs are all incorporated under the laws of Ghana as private companies.

Kallo has entered into four major concession agreements with four key governmental institutions in Ghana. Kallo Inc., through its SPVs has entered into the following concession arrangements for the construction and operation of various hospital facilities in Ghana:

| Project Description | Kallo SPV |
|--|--------------------------|
| 1 Tamale Military Hospital project | K-TMH Ghana Limited |
| 2 Cape Coast Teaching Hospital project | K-UCC Cape Coast Limited |
| 3 Sunyani Teaching Hospital project | K-UENR Sunyani Limited |
| 4 Ho Teaching Hospital project | K-UHAS Ho Limited |

These agreements are effective upon execution and the concession period will start from the date on which financial close is achieved with the Lenders and all conditions precedent are satisfied or waived. The financing has not closed yet and there is no guarantee that financial close will be achieved.

We are also having very active discussions with other neighboring countries in Africa such as Niger, South Africa, and Nigeria for further expansion of our businesses in the region.

In 2017, we have also initiated project negotiations in Canada with two First Nations Groups to provide innovative solutions to increase accessibility and monitoring and management of medication from prescription to consumption with direct reporting to the provincial ministries.

Project Financing for the projects is being arranged by Seawave Invest Ltd. Bahamas, Nova Capital Global LLC, New York, and GRISSAG AG (PTY) LTD and the risk guarantees are being provided by the African Guarantee Fund and the Multilateral Investment Guarantee Agency (MIGA), the Political Risk Insurance arm of the World Bank Group.

In order to manage the aggressive expansion of our business, we have entered into collaboration agreements with TAHPI, an international company with expertise in Health Service Planning, Health Facility Planning, Architecture and Interior Design on 30th June 2017 and FORTA MEDICAL, an advanced off-site building methods company on 28th July 2017. FORTA offers healthcare facilities based on a fast-track modular design and construction solutions with minimal disruption to the surrounding facilities operation. Their advanced factory prefabrication helps shorten project construction timetables in a way that is not achievable with on-site building technologies. These collaborations will augment Kallo's project delivery capacity and our ability to deliver complex projects in multiple geographies.

Kallo has also secured renewed commitment from our technology partners and technology infrastructure providers.

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Plan of Operation

The following plan of operation contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this document. Because of the speculative nature of our operations and the nature of the African countries we are attempting to do business with, there is no assurance that any of the planned operations will occur.

We continue to develop components of Kallo Integrated Delivery System:

Kallo Integrated Delivery System (KIDS)

MobileCare™ – a mobile trailer that opens into a state of the art clinical setup in a vehicle equipped with the latest technology in healthcare. More than just a facility, MobileCare™ can instantly connect the onboard physician with specialists for on-demand consultation via satellite through its Telehealth system. This is truly a holistic approach to delivering healthcare to the remotely located. For many rural communities, the nearest hospital, doctor or nurse may be hundreds of kilometers away. In many cases, this gap can be bridged using Telehealth technology that allows patients, nurses and doctors to talk as if they were in the same room.

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

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

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

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

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

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

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

Sales Go-To-Market Strategy

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

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

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

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

Our milestones during the next twelve months are:

1. To follow-up completion of the financing process with financiers and the respective governments.
2. To pursue working capital raise with Financial institutions and private placements.

To complete our organization restructuring and continue to build our infrastructure and resources for operations and management.

Need for additional capital

The Company has incurred operating losses since inception and has an accumulated deficit and a working capital deficit at June 30, 2017. The Company is expected to incur additional losses as it executes its go to market strategy. This raises substantial doubt about the Company's ability to continue as a going concern.

We cannot guarantee we will be successful in our business operations. Our business is subject to risks inherent in the establishment of a business enterprise, including limited capital resources and possible cost overruns due to price increases in services and products.

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

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

Results of operations

Revenues

We did not generate any revenues during the six months ended June 30, 2017 or 2016.

Expenses

During the three months ended June 30, 2017 we incurred total expenses of \$5,348,024, including \$5,419,984 in salaries and compensation, \$53,623 in interest and financing costs, \$89,507 in loss on foreign exchange, \$6,347 loss in fair value of derivative liabilities and \$5,759 as other expenses offset by \$227,196 gain on extinguishment of

convertible promissory notes whereas during the three months ended June 30, 2016 we incurred total expenses of
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\$1,452,630, including \$948,749 in salaries and compensation, \$15,766 in depreciation, \$39,056 in professional fees, \$24,216 in selling and marketing expenses, \$128,805 in interest and financing costs, \$103,033 loss in change in fair value on derivative liabilities, \$104,018 impairment on assets, \$6,594 in loss on foreign exchange and \$82,393 as other expenses.

The increase in our total expenses for the three months ended June 30, 2017 from the comparative period is mainly due to stock based compensation of \$5,318,964 offset by a decrease in other salaries and compensation of \$847,729, a decrease in professional fees of \$39,056, a decrease in interest and financing costs of \$75,182, a decrease in loss in fair value of derivative liabilities of \$96,686, a gain on extinguishment of convertible promissory notes and a decrease in other expenses. Notwithstanding the increase in total expenses due to the issuance of shares to remaining management team, there has been a slow down of the operations pending the finalization of new contracts. Several employees left the Company causing a significant reduction in salaries and compensation. The decrease in interest and financing costs is due to lower convertible promissory notes as these were converted into shares and settled.

During the six months ended June 30, 2017 we incurred total expenses of \$5,659,809, including \$5,597,849 in salaries and compensation, \$2,940 in selling and marketing expenses, \$112,016 in interest and financing costs, \$3,012 in loss in fair value of derivative liabilities, \$118,958 in loss on foreign exchange and \$52,230 as other expenses offset by \$227,196 gain on extinguishment of convertible promissory notes whereas during the six months ended June 30, 2016 we incurred total expenses of \$2,260,262, including \$1,390,747 in salaries and compensation, \$31,533 in depreciation, \$94,627 in professional fees, \$24,624 in selling and marketing expenses, \$194,219 in interest and financing costs, \$145,462 in loss in fair value of derivative liabilities, \$104,018 impairment of assets, \$78,148 loss on foreign exchange and \$196,884 in other expenses.

The increase in salaries of \$4,207,102 is mainly due to the stock based compensation of \$5,318,964 offset by a decrease of \$1,111,862 in other salaries and compensation and a decrease of \$94,627 in professional fees is due to significant curtailing of operations as the new contracts that Kallo was expecting did not materialize and the departure of several employees. There is also a decrease in interest and financing costs of \$82,203, decrease of impairment on assets of \$104,018 and a decrease in change in fair value of \$142,450 on the convertible promissory.

Net Loss

During the three months ended June 30, 2017 we did not generate any revenues and incurred a net loss of \$5,348,024 compared to a net loss of \$1,452,630 during the same period in 2016. The main reasons were the increase in salaries and compensation offset by a decrease in professional fees for the reasons discussed above.

During the six months ended June 30, 2017 we did not generate any revenues and we incurred a net loss of \$5,659,809 compared to a net loss of \$2,260,262 during the same period in 2016. The main reasons were the increase in salaries and compensation offset by a decrease in professional fees for the reasons discussed above.

Liquidity and capital resources

As at June 30, 2017, the Company had current assets of \$3,842,694 and current liabilities of \$4,220,995, indicating working capital deficiency of \$378,301. As of June 30, 2017, our total assets were \$3,806,946 in assignment of liabilities and \$35,748 in prepaid expenses and our total liabilities were \$4,220,995 comprised of \$3,101,602 in accounts payable and accrued liabilities, \$25,087 in derivative liabilities, \$19,723 in convertible promissory notes, convertible loans payable of \$918,822, \$139,053 in liability for share issuance and short term loans of \$16,708.

Cash used in operating activities amounted to \$261 during the six months ended June 30, 2017, primarily as a result of the net loss adjusted for non-cash items and various changes in operating assets and liabilities.

There was no cash used in investing activities during the current six months period ended June 30, 2017.

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Cash provided by financing activities during the six months ended June 30, 2017 amounted to \$261 and represented mainly proceeds from short term loans payable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the "Evaluation"), under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were not effective as of the end of the period covered by this report due to lack of segregation of duties in financial reporting and presence of adjusting journal entries during the audit as well as insufficient controls over the financial close process and preparation of the financial statements identified by the auditors during the audit of the company's financial statements for the year ended December 31, 2016.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no pending lawsuits.

ITEM 1A. RISK FACTORS.

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

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ITEM 6. EXHIBITS.

The following documents are included herein:

| Exhibit | Document Description | Incorporated by reference FormDate | Filed Number herewith |
|---------|--|--|-----------------------------|
| 2.1 | Articles of Merger | 8-K 1/21/11 | 2.1 |
| 3.1 | Articles of Incorporation | SB-2 3/05/07 | 3.1 |
| 3.2 | Bylaws | SB-2 3/05/07 | 3.2 |
| 3.3 | Amended Articles of Incorporation (11/23/2015) | 8-K 12/02/15 | 3.1 |
| 4.1 | Specimen Stock Certificate | SB-2 3/05/07 | 4.1 |
| 10.1 | Agreement with Rophe Medical Technologies Inc. dated December 11, 2009 | 10-K 3/31/10 | 10.2 |
| 10.2 | Amended Agreement with Rophe Medical Technologies Inc. dated December 18, 2009 | 10-K 3/31/10 | 10.3 |
| 10.3 | Amended Agreement with Rophe Medical Technologies Inc. dated March 16, 2010 | 10-K 3/31/10 | 10.4 |
| 10.4 | Investment Agreement with Kodiak Capital Group, LLC dated October 20, 2014 | S-1 10/30/14 | 10.6 |
| 10.5 | Amended Agreement with Jarr Capital Corp. | 8-K 2/22/11 | 10.1 |
| 10.6 | Termination of Employment Agreement with John Cecil | 8-K 2/22/11 | 10.2 |
| 10.7 | Termination of Employment Agreement with Vince Leitao | 8-K 2/22/11 | 10.3 |
| 10.8 | Termination of Employment Agreement with Samuel Baker | 8-K 2/22/11 | 10.4 |
| 10.9 | Services Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K 5/18/11 | 10.1 |
| 10.10 | Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K 5/18/11 | 10.2 |
| 10.11 | Agreement with Mansfield Communications Inc. | 10-K 5/18/11 | 10.3 |
| 10.12 | Agreement with Watt International Inc. | 10-K 5/18/11 | 10.4 |
| 10.13 | Pilot EMR Agreement with Nexus Health Management Inc. | 10-K 5/18/11 | 10.5 |
| 10.14 | 2011 Non-Qualified Stock Option Plan | S-8 6/27/11 | 10.1 |

10.15 Multimedia Contractual Agreement with David Miller 8-K 10/28/11 10.1

10.16 Strategic Alliance Agreement with Petro Data Management Services Limited
and Gateway Global Fabrication Ltd. 8-K 11/02/11 10.1

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|-------------|--|----------|---------|-------|---|
| 10.17 | Independent Contractor Agreement with Savers Drug Mart | 8-K | 1/26/12 | 10.1 | |
| 10.18 | 2012 Non-Qualified Stock Option Plan | S-8 | 9/06/12 | 10.1 | |
| 10.19 | Memorandum of Offering with Ministry of Health of Republic of Ghana | S-1/A-3 | 6/26/13 | 10.32 | |
| 10.20 | Addendum to Investment Agreement with Kodiak | S-1/A-4 | 7/31/13 | 10.33 | |
| 10.21 | Second Addendum to Investment Agreement with Kodiak | S-1 | 8/25/14 | 10.34 | |
| 10.22 | Email from Kodiak | S-1/A-1 | 9/24/14 | 10.35 | |
| 10.23 | Email from Kodiak | S-1/A-1 | 9/24/14 | 10.36 | |
| 14.1 | Code of Ethics | S-1 | 8/25/14 | 14.2 | |
| 16.1 | Letter from Collins Barrow Toronto LLP | 8-K/A-12 | 15/12 | 16.3 | |
| 16.2 | Letter from Schwartz Levitsky Feldman LLP | 8-K/A-38 | 13/14 | 16.1 | |
| 21.1 | List of Subsidiary Companies | 10-K | 3/31/10 | 21.1 | |
| <u>31.1</u> | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| <u>32.1</u> | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 99.1 | Audit Committee Charter | 10-K | 4/15/08 | 99.1 | |
| 99.2 | Disclosure Committee Charter | 10-K | 4/15/08 | 99.2 | |
| 99.3 | FCPA Code | S-1 | 8/25/14 | 99.3 | |
| 99.4 | Letter from Ministry of Health | 8-K | 6/08/15 | 99.2 | |
| 99.5 | Letter from Minister of Health and Public Hygiene | 8-K | 6/24/15 | 99.2 | |
| 101.INS | XBRL Instance Document | | | | X |
| 101.SCH | XBRL Taxonomy Extension – Schema | | | | X |
| 101.CAL | XBRL Taxonomy Extension – Calculations | | | | X |
| 101.DEF | XBRL Taxonomy Extension – Definitions | | | | X |
| 101.LAB | XBRL Taxonomy Extension – Labels | | | | X |

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 14th day of November, 2017.

KALLO INC.
(The "Registrant")

BY: JOHN CECIL

John Cecil

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

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| 101.LAB | XBRL Taxonomy Extension – Labels | | | | X |

101.PRE XBRL Taxonomy Extension – Presentation

X

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