

Kallo Inc.
Form 10-K
April 19, 2012

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the fiscal year ended December 31, 2011

Commission file number 000-53183

KALLO INC.
(formerly Diamond Technologies Inc.)

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
(Issuer's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [] No

Indicate by check mark if the registrant is required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No []

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 past 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

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(§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

(Do not check if a 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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of March 28, 2012: \$27,556,595

The registrant had 137,782,976 shares of common stock outstanding as of March 28, 2012.

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PART I

ITEM 1. BUSINESS.

We were incorporated in the state of Nevada on December 12, 2006 as Printing Components Inc. to engage in the business of selling printing equipment and related products. We subsequently changed our name to Diamond Technologies Inc. and then to our current name of Kallo Inc. On December 11, 2009, we entered into an agreement with Kallo Technologies Inc. (formerly known as Rophe Medical Technologies Inc.), a Ontario corporation and its shareholders (collectively “Rophe”) wherein we acquired all of the issued and outstanding shares of common stock of Rophe in exchange for 3,000,000 restricted shares of our common stock and \$1,200,000. As a result of our acquisition of Rophe, we were no longer a “shell company” as that term is defined in Rule 405 of the Securities Act of 1933, as amended.

Upon acquiring Rophe, the focus of our business changed from selling printing equipment to manufacturing and developing medical information technology software.

Business Overview

We develop and sell software for doctors, Radiologists and hospitals. One of our products is an Electronic Medical Record System (EMR) called EMCURx. Emcurx is an informatics tool that enables the physician to make informed diagnostic and therapeutic decisions at point of care. The system communicates with existing legacy systems including Admissions (ADT), pharmacy, laboratory, radiology and Picture Archival and Communication Systems (PACS) through Health Language 7 (HL-7) interfaces. Through its interfaces, EMR captures all clinical information available on every hospitalized patient at any given moment, representing the totality of data required by the hospital clinical staff to perform their duties. Healthcare personnel are able to access information from a variety of different sources through this single software solution.

Our corporate headquarters are located at 15 Allstate Parkway, Markham, Ontario, Canada,

Our Technology

We own copyrighted proprietary software which allows us (or the physician or medical facility that uses the software?) to accumulate and store medical information from various parts of the health-care system into a single source to be stored as an Electronic Medical Record (EMR) for each patient. This allows us (or the medical community that purchased the software?) to collect medical data for each individual patient, from various sources (physicians, hospitals, laboratories, and pharmacies into one depository which can be accessed by certain medical professionals. This system eliminates patient errors when patients provide medical histories to new physicians and hospitals as well as allowing health care providers with immediate up to the date information.

Our Solution consists of three distinct products for which we have distribution rights. Our solution addresses key technology gaps in the healthcare Clinical and administrative information environment:

1. EMR – Kallo has exclusive VAR rights on the EMCURX brand owned by Kallo and manufactured by Mountain Medical Technologies Inc.
2. PACS – Kallo is the Value added reseller for Candelis in Canada and other healthcare projects globally for and integrated solution offering.
3. Capsule Technologies – Kallo is in the process of negotiating an agreement to be Value added reseller in Canada and other healthcare projects globally for and integrated solution offering.

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Our Products In Development

In addition to EMR, our product portfolio also includes three earlier stage products listed below, all of which highlight the broad applicability of our proprietary technologies to a diverse range of potential future products. We plan to evaluate partnership opportunities for further development and commercialization of these products.

1. The company has proprietary Copyrighted Technology “EMR Integration Engine” that demonstrate the future direction for integrated solutions as well as current efforts that illustrate interoperability within the continuum of care.
2. C&ID-IMS is an Internet-based solution for monitoring and managing Communicable and Infectious Disease information. Our target markets are Health Organizations and Ministries of Health, hospitals and Center for Disease Control (CDC) & the World Health Organization (WHO) members around the globe.
3. CCG is our clinical-care globalization technology. This product is an effective way to capitalize on the growing “medical tourism phenomenon “ - patients going to low-cost countries for elective medical procedures –, a fast-growing worldwide, multibillion-dollar industry actively promoted by countries such as Cuba, Costa Rica, Hungary, India, Israel, Jordan, Lithuania, Malaysia, Thailand, Belgium, Poland, Singapore and South Africa.CCG can be used by both the destination and home country to maintain complete and accurate records of the treatment history, avoiding errors due to incomplete patient data and lessening the burden and expense of corrective action on the home country when medical tourists return home.
4. MC-Telehealth (Mobile Clinic with Telehealth system) is our mobile clinic long distance or Telehealth technology. Our product enables the remote transmission of standardized formats of data for laboratory information, diagnostic imaging, diagnosis and clinical notes.

Target Market

Our target market for EMR is the Canadian health-care system including Walk-In Clinics/Physicians Offices, Independent Diagnostic Centers, Impendent Health Facilities, Laboratories, and Hospitals. Both the US and Canadian governments are moving towards requiring EMR records with the Canadian system at a more advanced stage of acceptance.

Intellectual Property and Research and Development

We continue to improve and upgrade our system for better performance and to address specific needs. These development activities are often subcontracted to technical companies that specialize in these fields. All of our research and development work is proprietary to our company. During fiscal 2011, we did incur expenses towards cost of resources (both management and technical) relating to research and development with considerable efforts in continuing our research and development work on the Mobile Clinic and Telehealth system, which would be rolled out in the near term in different geographies based on the needs and funding availability.

We do not have any patents on our system or modules. We rely on trade secrets laws, confidentiality agreements and other contractual commitments to protect our proprietary research and development efforts and intellectual property. These protections may not be adequate to protect our proprietary interests. We cannot assure you that third party competitors will not obtain access of our technical

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information and exploit it for their own benefit. In such event, we may not have adequate funds available to prosecute actions to protect or to defend our proprietary rights. If our proprietary interests are divulged to the public and we do not have adequate funds to prevent third parties from using these interests for their own use, we may lose our competitive advantage, which may adversely affect our financial condition.

Government Regulation and Legislation

EMR is required to obtain any governmental approvals to operate in the healthcare technology market. It is important that governments and healthcare authorities continue to recognize the importance of healthcare reform and the use of information systems, since there rests the impetus for change, hence a healthy, growing market.

In the Canadian context our products would require a preferred vendor status registration based on different provincial regulations which is generally seen as just a routine product and technology registration/endorsement

Employees

As of March 28, 2012, we have four (4) full time equivalent employee, one (1) part time employee and one (1) full time equivalent consultant, outsourced product development engineer from OEM (Original Equipment Manufacturer), Mountain Medical Technologies Inc. Our accounting functions are outsourced to JF Chartered Accountants and we have one (1) CPA as part time consultant.

Warranties

We do not issue warranties in connection with our services. All of our third-party products are offered with a warranty provided by the supplier of that product.

Insurance

Currently we have very a strong EULA (End User License Agreements) signed with our customers both in the pilot phase as well as go-live phase with patients to protect the company and from all such product liabilities. Moreover our original equipment manufacturers do cover us in all such product liabilities.

Offices

Our administrative office is located at 15 Allstate Parkway, Suite 600, Markham, Ontario, Canada, L3R 5B4, our telephone number is (416) 246-9997. We lease this space from RCN Management Limited Partnership Company, pursuant to a written lease with a term of 18 months. Our monthly rent is approximately \$6,000.

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 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Our properties consist mainly of leased office facilities. The executive offices of Kallo Inc. are located at 15 Allstate Parkway, Suite 600, Markham, Ontario, Canada, L3R 5B4, our telephone number is (416) 246-9997.

ITEM 3. LEGAL PROCEEDINGS.

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.

On March 14, 2012, the Company and the past officer have agreed to settle all the claims in exchange of the Company paying a total of \$130,000 (\$25,000 by March 29, 2012, 10 instalments of \$10,000 for the following ten months, \$5,000 by February 28, 2013) and issuing 500,000 restricted shares of its common stock to the past officer.

On July 29, 2011, Watt International Inc. (“Watt”) commenced a third party claim against Kallo concerning monies that Kallo allegedly owed to Watt for branding and internet services provided by Watt to Kallo. Watt is seeking damages in the amount of \$161,673.67 plus unspecified “special” damage. Management is of the opinion that Watt has charged Kallo for services that Watt did not perform, and that Watt has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. Management has recognized an accrual for the amount of the claim.

PART II

ITEM MARKET FOR REGISTRANT’S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Our shares are traded on the Bulletin Board operated by the Financial Industry Regulatory Authority under the symbol “KALO”. A summary of trading by quarter for 2011 and 2010 is as follows:

| Fiscal Year | | High Bid | Low Bid |
|-------------|------------------------------------|----------|---------|
| 2011 | | | |
| | Fourth Quarter 10-1-11 to 12-31-11 | \$0.11 | \$0.02 |
| | Third Quarter 7-1-11 to 9-30-11 | \$0.10 | \$0.05 |
| | Second Quarter 4-1-11 to 6-30-11 | \$0.22 | \$0.10 |
| | First Quarter 1-1-11 to 3-31-11 | \$0.22 | \$0.05 |
| Fiscal Year | | | |
| 2010 | | | |
| | Fourth Quarter 10-1-10 to 12-31-10 | \$0.51 | \$0.05 |
| | Third Quarter 7-1-10 to 9-30-10 | \$0.25 | \$0.10 |
| | Second Quarter 4-1-10 to 6-30-10 | \$4.50 | \$0.25 |
| | First Quarter 1-1-10 to 3-31-10 | \$0.15 | \$0.15 |

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The foregoing reflects a 3 for 1 stock dividend declared on February 11, 2008.

Dividends

We have not declared any cash dividends, nor do we intend to do so. We are not subject to any legal restrictions respecting the payment of dividends, except that they may not be paid to render us insolvent. Dividend policy will be based on our cash resources and needs and it is anticipated that all available cash will be needed for our operations in the foreseeable future.

A stock dividend was declared on February 11, 2008, wherein two additional common shares were issued for each one common share issued and outstanding as at February 25, 2008. We have not declared any other dividends.

Section 15(g) of the Securities Exchange Act of 1934

Our company's shares are covered by Section 15(g) of the Securities Exchange Act of 1934, as amended that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouses). For transactions covered by the Rule, the broker/dealer must make a special suitability determination for the purchase and have received the purchaser's written agreement to the transaction prior to the sale. Consequently, the Rule may affect the ability of broker/dealers to sell our securities and also may affect your ability to sell your shares in the secondary market.

Section 15(g) also imposes additional sales practice requirements on broker/dealers who sell penny securities. These rules require a one page summary of certain essential items. The items include the risk of investing in penny stocks in both public offerings and secondary marketing; terms important to in understanding of the function of the penny stock market, such as "bid" and "offer" quotes, a dealers "spread" and broker/dealer compensation; the broker/dealer compensation, the broker/dealers duties to its customers, including the disclosures required by any other penny stock disclosure rules; the customers rights and remedies in causes of fraud in penny stock transactions; and, the NASD's toll free telephone number and the central number of the North American Administrators Association, for information on the disciplinary history of broker/dealers and their associated persons.

Securities authorized for issuance under equity compensation plans

We have no equity compensation plans and accordingly we have no shares authorized for issuance under an equity compensation plan.

ITEM 6. SELECTED FINANCIAL DATA.

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

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ITEMMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. 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.

Our auditors have issued a going concern opinion. This means that our auditors believe there is substance 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 not generated substantial revenues and do not anticipate generating on-going revenue until we complete the development of our website and engage suppliers and customers to buy our products.

We have opened our office, purchased furniture and computers, installed phone lines and acquired finished goods for resale. We made no sales in 2011.

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 include both selling our existing product 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 90 days from the time we received additional funding. Our milestones during the next twelve months are:

- 1 - Developing our sales organization and marketing the third party products along with our software that bring the data from these products into an EMR system in the major metropolitan areas of Canada
- 2 – Simultaneously with the build-up of our sales organization, we will build a product support team that will provide installation, training and customer support.
- 3 – Expanding our market from the larger metropolitan areas to the smaller rural and more distant medical facilities.

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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.

We have successfully launched one of our copyrighted technologies "MOBILE CARE" - Mobile Clinics in November 2011, and have since then received several enquiries for this product from countries in Africa, Vietnam, North West Territories and Northern Ontario in Canada, USA, and the Middle East. Based on the levels of interest from the local Ministries of Health, we have selected companies with business and technical strengths as our local representatives for sales and support in the region. We expect to see sales revenues from Kallos' Mobile Care business unit in the next twelve (12) months.

Our Development and Commercialization Strategy for new products

We intend to initiate sales of our products in our target commercial areas. Our target commercial areas are hospitals, clinics and doctors' offices. We expect to focus on marketing our current offering as well as completing product development for our product candidates in order to increase our possibilities for current and future revenue generation.

Our forward-looking plan envisions applying our copyrighted design and technology to develop three additional products, to bring to market integrated computer systems that address today's critical health management needs in epidemic control, medical information flow across borders and provision of health care in rural and remote areas.

In addition to our EMR, which is ready for production, we have prioritized the following products for completion of development and are listing them in order of priority.

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

CCG - our Clinical-Care Globalization 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 under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 915-205. We have been in the development stage since our inception. We have had no substantial recurring source of revenue; we have incurred operating losses since inception and at December 31, 2011 had a working capital deficiency of \$1,447,002.

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.

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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 year ended December 31, 2011 or 2010. From our inception on December 12, 2006 to December 31, 2011 we generated \$15,887 in revenues.

As of the last week of March 2012, we did not generate revenues.

Expenses

During the year ended December 31, 2011 we incurred total expenses of \$5,337,700, including \$2,988,350 in salaries and compensation, \$162,815 in research and development costs, \$85,296 in depreciation, \$1,302,728 in professional fees, \$426,017 in selling and marketing expenses and \$372,494 as other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees.

During the year ended December 31, 2010 we incurred total expenses of \$3,662,252.

The increase in our expenses for the year ended December 31, 2011 was primarily due to an increase in salaries and compensation of \$441,321, an increase in selling and marketing expenses of \$367,533 and an increase in professional fees of \$982,774, offset by a decrease in research and development costs of \$498,662.

Net Loss

During the year ended December 31, 2011 we did not generate any revenues and we incurred a net loss of \$5,337,700 compared to a net loss of \$3,662,252 in 2010.

From our inception on December 12, 2006 to December 31, 2011 we incurred a net loss of \$9,757,198, \$8,183,469 of which was general and administration, \$824,292 of which was software development costs, \$518,857 of which was selling and marketing and \$230,580 of which was other expenses.

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From Inception on December 12, 2006 to December 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 \$9,892,676.

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 the first quarter of 2010, we sold 1,133,664 shares of common stock at \$0.15 per share for a total of \$170,050.

Between July 1, 2010 and October 25, 2010, the Company sold 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 expiring on December 31, 2011 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 from the directors and officers of the Company and stock based compensation of \$3,373,650.

In 2011, we sold 13,604,132 shares of common stock for a total of \$718,694 and issued 883,334 shares of common stock to creditors in satisfaction of \$49,434 in outstanding payables. We also issued 58,500,000 common stock of the Company valued at \$3,125,000 for cash proceeds of \$5,850 from the directors and officers of the Company and stock based compensation of \$3,119,150.

On October 24, 2011, we issued 1,000,000 common stock of the Company valued at \$70,000 to a consultant for the provision of services relating to the marketing of the Company's business and products to the public.

Liquidity and capital resources

As at December 31, 2011, the Company had current assets of \$132,160 and current liabilities of \$1,579,162, indicating working capital deficiency of \$1,447,002. As of December 31, 2011, our total assets were \$1,163,270 in cash, copyrights, equipment and our total liabilities were \$2,057,815 comprised

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of \$1,253,283 in accrued liabilities, \$175,000 in accrued officer salaries, Rophe Medical Technologies Inc. acquisition costs payable of \$56,502, proceeds for shares to be issued of \$394,474 and obligations under capital leases of \$177,556.

Cash used in operating activities amounted to \$983,233 during fiscal 2011, 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 year.

Cash provided by financing activities during the year amounted to \$939,885 and represented mainly proceeds from sales of common stock of \$654,574 and proceeds for shares to be issued of \$394,474, net of capital lease payments of \$109,163.

In 2011, we sold 13,604,132 shares of common stock for a total of \$718,694 and we issued 58,500,000 common stock of the Company valued at \$3,125,000 for cash proceeds of \$5,850 from the directors and officers of the Company and stock based compensation of \$3,119,150.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

KALLO INC.
(formerly Diamond Technologies, Inc.)
(A DEVELOPMENT STAGE COMPANY)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Kallo Inc.
(A Development Stage Company)

We have audited the accompanying consolidated balance sheet of Kallo Inc. (a development stage company) as of December 31, 2011, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity (deficit), and cash flows for the year then ended and for the period from December 12, 2006 (inception) to December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements as of December 31, 2010, and for the period December 12, 2006 (inception) to December 31, 2010, were audited by other auditors whose report dated May 9, 2011 expressed an unqualified opinion on those statements. The financial statements for the period December 12, 2006 (inception) to December 31, 2010, include accumulated deficit of \$4,419,498 and total assets of \$1,209,791. Our opinion on the consolidated statements of operations and comprehensive loss, changes in stockholders' equity (deficit), and cash flows for the period December 12, 2006 (inception) to December 31, 2011, insofar as it relates to the amounts for prior periods through December 31, 2010, is based solely on the report of other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors, provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of its operations and its cash flows for the year then ended and for the period from December 12, 2006 (inception) to December 31, 2011 in conformity with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is a development stage company, has experienced recurring losses since inception and has no established source of revenue. Those conditions raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Toronto, Ontario, Canada
April 16, 2012

SCHWARTZ LEVITSKY FELDMAN LLP
Chartered Accountants
Licensed Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors,
Kallo Inc.
(formerly Diamond Technologies Inc.)

We have audited the accompanying consolidated balance sheet of Kallo Inc. (the "Company"), formerly known as Diamond Technologies Inc. (a development stage company), as of December 31, 2010 and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements as at and for the year ended December 31, 2009 were audited by other auditors who expressed opinions without reservation on those consolidated financial statements in their report dated March 31, 2010.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
May 09, 2011

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

| ASSETS | December 31, | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Current Assets: | | |
| Cash | \$ 15,821 | \$ 59,169 |
| Other receivables | 37,571 | - |
| Prepaid expenses | 78,768 | 8,900 |
| Total Current Assets | 132,160 | 68,069 |
| Copyrights (Note 8) | 865,000 | 865,000 |
| Equipment, net (Note 6) | 166,110 | 210,658 |
| Deferred Financing Costs | - | 66,064 |
| TOTAL ASSETS | \$ 1,163,270 | \$ 1,209,791 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) | | |
| Current Liabilities: | | |
| Accrued liabilities-other | \$ 1,253,283 | \$ 271,376 |
| Accrued officers' salaries | 175,000 | 116,250 |
| Acquisition cost payable (Note 8) | 56,502 | 56,502 |
| Loans payable (Note 11) | - | 42,000 |
| Current portion of obligations under capital leases (Note 7) | 94,377 | 96,759 |
| Total Current Liabilities | 1,579,162 | 582,887 |
| Obligations Under Capital Leases (Note 7) | 83,179 | 145,877 |
| Deposit for shares to be issued (Note 13) | 394,474 | - |
| TOTAL LIABILITIES | 2,056,815 | 728,764 |
| | | |
| Commitments and Contingencies (Notes 8 and 10) | | |
| Going Concern (Note 1) | | |
| Subsequent Events (Note 12) | | |
| Stockholders' Equity (Deficit) (Note 3) | | |
| Preferred stock, \$0.00001 par value, 100,000,000 shares authorized, none issued and outstanding | - | - |
| Common stock, \$0.00001 par value, 500,000,000 (2010 – 100,000,000) shares authorized, 113,072,632 and 39,085,166 shares issued and outstanding at December 31, 2011 and 2010, respectively. | 1,131 | 392 |
| Additional paid-in capital | 8,862,522 | 4,900,133 |
| Deficit accumulated during the development stage | (9,757,198) | (4,419,498) |
| Total Stockholders' Equity (Deficiency) | (893,545) | 481,027 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,163,270 | \$ 1,209,791 |

The accompanying notes are an integral part of these consolidated financial statements

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KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Consolidated Statements of Operations and Comprehensive Loss

| | For the Year Ended December 31, 2011 | For the Year Ended to December 31, 2010 | For the Period December 12, 2006 (inception) to December 31, 2011 |
|--|---|--|---|
| Revenue | \$ - | \$ - | \$ 15,887 |
| Cost of Revenue | - | - | 12,840 |
| Gross Profit | - | - | 3,047 |
| Expenses | | | |
| General and administration (Note 5) | 4,555,257 | 2,910,164 | 8,183,469 |
| Selling and marketing | 426,017 | 58,484 | 518,857 |
| Software development costs (Note 5) | 162,815 | 661,477 | 824,292 |
| Foreign exchange loss | (32,446) | 7,761 | (24,684) |
| Depreciation | 85,296 | 14,127 | 107,311 |
| Interest and financing costs | 140,761 | 3,709 | 144,470 |
| Loss on disposal of equipment | - | 6,530 | 6,530 |
| | 5,337,700 | 3,662,252 | 9,760,245 |
| Net Loss and comprehensive loss | \$ (5,337,700) | \$ (3,662,252) | \$ (9,757,198) |
| Loss per share - Basic and diluted net | \$ (0.087) | \$ (0.127) | |
| Weighted average number of shares outstanding - Basic and diluted | 61,446,207 | 28,941,609 | |

The accompanying notes are an integral part of these consolidated financial statements

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KALLO INC.
(formerly Diamond Technologies, Inc.)
(A Development Stage Company)
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For the the period from December 12, 2006 (inception) through December 31, 2011

| | Preferred Stock \$.00001 par value | | Common Stock \$.00001 par value | | Additional Paid-In Capital | Deficit Accumulated During the Development Stage | Total Stockholders' Equity (Deficit) |
|---|---------------------------------------|--------|------------------------------------|--------|----------------------------------|--|---|
| | Shares | Amount | Shares | Amount | | | |
| Balance December 12, 2006 (Inception) | - | \$ - | - | \$ - | \$ - | \$ - | \$ - |
| Issuance of common shares | - | - | 15,000,000 | 150 | (100) | - | 50 |
| Net loss | - | - | - | - | - | (18,500) | (18,500) |
| Balance December 31, 2006 | - | - | 15,000,000 | 150 | (100) | (18,500) | (18,450) |
| Issuance of common shares | - | - | 1,721,502 | 17 | 172,608 | - | 172,625 |
| Net loss | - | - | - | - | - | (232,602) | (232,602) |
| Balance December 31, 2007 (Audited) | - | - | 16,721,502 | 167 | 172,508 | (251,102) | (78,427) |
| Net loss | - | - | - | - | - | (65,770) | (65,770) |
| Balance December 31, 2008 (Audited) | - | - | 16,721,502 | 167 | 172,508 | (316,872) | (144,197) |
| Shares issued for Rophe Acquisition | - | - | 6,000,000 | 60 | 765,240 | - | 765,300 |
| Issuance of common shares | - | - | 150,000 | 2 | 14,998 | - | 15,000 |
| Stock based compensation | - | - | - | - | 7,500 | - | 7,500 |
| Net Loss | - | - | - | - | - | (440,374) | (440,374) |
| Balance December 31, 2009 (Audited) | - | - | 22,871,502 | 229 | 960,246 | (757,246) | 203,229 |
| Issuance of common shares | - | - | 1,133,664 | 12 | 170,038 | - | 170,050 |
| Issuance of units, consisting of | - | - | 1,580,000 | 16 | 394,984 | - | 395,000 |

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| | | | | | | | |
|--|---|------|-------------|----------|-------------|---------------|--------------|
| common shares and common share warrants | | | | | | | |
| 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 |
| Issuance of common shares | - | - | 13,604,132 | 136 | 718,558 | - | 718,694 |
| Shares issued to officers, directors, employees and others | - | - | 58,500,000 | 585 | 3,124,415 | - | 3,125,000 |
| Shares issued for repayment of consulting fees | - | - | 1,000,000 | 10 | 69,990 | - | 70,000 |
| Settlement of accounts payable by common shares | - | - | 883,334 | 8 | 49,426 | - | 49,434 |
| Net Loss | - | - | - | - | - | (5,337,700) | (5,337,700) |
| Balance December 31, 2011 (Audited) | - | \$ - | 113,072,632 | \$ 1,131 | \$8,862,522 | \$(9,757,198) | \$ (893,545) |

The accompanying notes are an integral part of these consolidated financial statements

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

| | For the Year Ended December 31, 2011 | For the Year Ended December 31, 2010 | For the Period December 12, 2006 (inception) to December 31, 2011 |
|--|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$(5,337,700) | \$(3,662,252) | \$ (9,757,198) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Depreciation | 85,296 | 14,127 | 107,311 |
| Stock-based compensation | 3,119,150 | 2,764,877 | 5,895,527 |
| Write-off of deferred financing costs | 66,064 | - | 66,064 |
| Extinguishment loss on revision of terms of loan conversion into shares | 37,404 | - | 37,404 |
| Loss on disposal of equipment | - | 6,530 | 6,530 |
| Non-cash interest accrued | 3,336 | - | 3,336 |
| Non-cash consulting expenses | 13,233 | - | 13,233 |
| Changes in operating assets and liabilities: | | | |
| Increase in other receivables | (37,571) | - | (37,571) |
| Increase in prepaid expenses | (13,101) | (8,900) | (22,001) |
| Increase in accrued liabilities | 1,080,656 | 545,200 | 1,857,360 |
| NET CASH USED IN OPERATING ACTIVITIES | (983,233) | (340,418) | (1,830,005) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Cash acquired in Rophe acquisition | - | - | 300 |
| Purchase of equipment | - | - | (14,418) |
| CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | - | - | (14,118) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Stockholder advances (repayments) | - | (145,718) | 41,957 |
| Proceeds from issuance of common stock | 654,574 | 566,400 | 1,516,740 |
| Proceeds for shares to be issued | 394,474 | - | 394,474 |
| Deferred financing costs | - | (66,064) | (26,064) |
| Repayment of obligations under capital leases | (109,163) | - | (109,163) |
| Proceeds from loans payable | - | 42,000 | 42,000 |
| CASH PROVIDED BY FINANCING ACTIVITIES | 939,885 | 396,618 | 1,859,944 |
| NET (DECREASE) INCREASE IN CASH | (43,348) | 56,200 | 15,821 |

CASH

| | | | |
|---------------------|-----------|-----------|-----------|
| Beginning of period | 59,169 | 2,969 | - |
| End of period | \$ 15,821 | \$ 59,169 | \$ 15,821 |

SUPPLEMENTAL CASH FLOW INFORMATION:

| | | |
|-----------------|-----------|--------|
| Income tax paid | \$ - | \$ - |
| Interest paid | \$ 51,957 | \$ 290 |

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 | \$ 40,747 | \$ 224,959 | \$ 265,706 |

The accompanying notes are an integral part of these consolidated financial statements

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

NOTE 1 - ORGANIZATION AND GOING CONCERN

Organization

Kallo Inc. (the “Company” or “Kallo”), formerly, Diamond Technologies, Inc., a development stage company, was incorporated in Nevada on December 12, 2006. The Company originally offered media, inks, printing, and graphic design services to the large format digital printing industry. The Company’s fiscal year ends on December 31st. On December 31, 2009, Kallo entered into an agreement with Rophe Medical Technologies Inc. and its shareholders (collectively “Rophe”) wherein Kallo acquired all of the issued and outstanding shares of common stock of Rophe. As a result of the Rophe transaction, Kallo changed its business focus from selling printing equipment to manufacturing and developing software designed to taking medical information from many sources, and then depositing it into a single source as an electronic medical record for each patient.

On 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 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 consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The amounts of assets and liabilities in the consolidated financial statements do not purport to represent realizable or settlement values. The Company has incurred operating losses since inception and has an accumulated deficit of \$9,757,198 at December 31, 2011. The Company will continue to incur losses as it develops its products and marketing channels during 2012.

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. 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. After the year end, the Company raised \$1,150,848.15, of which \$394,474 was received as at December 31, 2011, by issuing 23,016,963 unregistered shares of common stock.

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

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS

Basis of Presentation

The consolidated financial statements were prepared using accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to a development stage enterprise under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915-205.

Basis of Consolidation

The consolidated financial statements include the accounts of Kallo and its wholly-owned subsidiary, Rophe Medical Technologies Inc. Significant inter-company transactions and balances have been eliminated on consolidation.

Loss Per Share

The Company computes basic net loss per share in accordance with ASC 260, Earnings Per Share, by dividing the net loss for the period by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed by dividing the net loss for the year by the weighted average number of common and potentially dilutive common shares outstanding during the year, adjusted by any effects of warrants and options outstanding, if dilutive, that may add to the number of common shares during the year.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Key estimates include the fair value of common stock issued for services received by the Company and provision for penalties and interest on estimated payroll tax liabilities.

Equipment

Equipment is stated at cost. The cost of computer equipment is depreciated using the straight-line method over the estimated useful life of the related assets of 3 years.

Software Development Costs

Software development costs are accounted for in accordance with ASC 985-20, Costs of Software to be Sold, Leased or Marketed. Software development costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a detailed program design. Based on the Company’s product development process, technological feasibility is established upon completion of a working model. The determination of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including anticipated future gross product revenues, estimated economic life and changes in hardware and software technology.

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

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Software Development Costs (continued)

Thereafter, all software development costs incurred through the software's general release date are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each software solution with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the solution. No costs have been capitalized to date as the Company has not completed a working model yet.

Copyrights

Copyrights are stated at cost. According to the copyright laws in the United States of America, the life of a copyright is the author's life plus 70 years, which is determined to be indefinite. As a result, the copyrights are not amortized but are subject to testing for impairment. The Company reviews the value of the copyrights on an annual basis to determine if the value has been impaired. Based on its evaluations, there was no impairment of copyrights as at December 31, 2011 and 2010.

Impairment of Long-lived Intangible Assets

Long-lived assets comprise of equipment and copyrights. The Company accounts for impairment of intangible assets in accordance with the guidance established in ASC 360, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires the Company to evaluate a long-lived asset for recoverability when there is event or circumstance that indicates the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset's (or asset group's) fair value. Management reviewed its long-lived intangible assets and has determined that no impairment exists that relate to these assets through December 31, 2011.

Research and Development

The Company accounts for research and development costs in accordance with Accounting Standards Codification subtopic 730-10, Research and Development (ASC 730-10). Accordingly, all research and development costs are charged to expense as incurred.

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

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Income Taxes

The Company accounts for income taxes under FASB ASC 740, Income Taxes. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized.

FASB ASC 740 also addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FASB ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of FASB ASC 740.

Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar. Occasional transactions may occur in Canadian dollars which are accounted for under ASC 830, Foreign Currency Matters. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. Average monthly rates are used to translate revenues and expenses. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the Statements of Operations. The Company has not, to the date of these consolidated financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Comprehensive Income

ASC 220, Comprehensive Income establishes standards for the reporting and display of comprehensive income or loss and its components in the consolidated financial statements. As at December 31, 2011 and 2010, the Company has no items that are required to be accounted for in comprehensive income or loss in the consolidated financial statements.

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

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Fair Value of Financial Instruments

The Company used a three-level hierarchy that prioritizes the inputs used in valuation techniques for determining fair value of investments and liabilities. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities recorded in the accompanying consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the company has the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives and most United States Government and agency securities).

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds which trade infrequently);
- Inputs other than quoted prices that are observable for substantially the full term of the asset or liability (examples include interest rate and currency swaps); and
- Inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability (examples include certain securities and derivatives).

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.

The fair value of cash, other receivables and accrued liabilities approximate their carrying amounts due to their short term nature.

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

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS (continued)

Stock-Based Compensation

The Company accounts for share-based compensation in accordance with ASC 718, Stock Compensation. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense for services rendered and over the employee's requisite service period (generally the vesting period of the equity grant).

Contingencies

The Company accrues estimates for resolution of any legal and other contingencies when losses are probable and estimable, in accordance with ASC 450, Contingencies. There were no accruals recorded for such contingencies through December 31, 2011 and 2010.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized, utilizing the effective interest method, as a component of interest expense over the terms of the respective financing arrangements. These deferred costs are included in other assets, net in our accompanying Consolidated Balance Sheets. These costs relate directly to the proposed capital raise (See Note 12) by the Company. During the year ended December 31, 2011, the agreement ended without successful completion of the proposed capital raise and the costs were charged to the statement of operations.

Stock Issued in Exchange for Services

The valuation of the Company's common stock issued in exchange for services is valued at an estimated fair market value as determined by officers and directors of the Company based upon trading prices of the Company's common stock on the dates of the stock transactions. The corresponding expense of the services rendered is recognized over the period that the services are performed.

Common Stock Purchase Warrants

The Company accounts for common stock purchase warrants at fair value in accordance with ASC 815-40 "DERIVATIVES AND HEDGING." The Black-Scholes option pricing valuation method is used to determine fair value of these warrants consistent with ASC 718, "COMPENSATION - STOCK COMPENSATION." Use of this method requires that the Company make assumptions regarding stock volatility, dividend yields, expected term of the warrants and risk-free interest rates.

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

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Convertible Debts

Convertible debt is accounted for under ASC 470, Debt – Debt with Conversion and Other Options. . The Company records a beneficial conversion feature (BCF) related to the issuance of convertible debt that have conversion features at fixed or adjustable rates that are in-the-money when issued and records the fair value of warrants issued with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion features, both of which are credited to paid-in-capital. The Company calculates the fair value of warrants issued with the convertible instruments using the Black-Scholes valuation method, using the same assumptions used for valuing employee options for purposes of following ASC Topic 718, except that the contractual life of the warrant is used. Under these guidelines, the Company allocates the value of the proceeds received from a convertible debt transaction between the conversion feature and any other detachable instruments (such as warrants) on a relative fair value basis. The allocated fair value is recorded as a debt discount or premium and is amortized over the expected term of the convertible debt to interest expense. For a conversion price change of a convertible debt issue, the additional intrinsic value of the debt conversion feature, calculated as the number of additional shares issuable due to a conversion price change multiplied by the previous conversion price, is recorded as additional debt discount and amortized over the remaining life of the debt.

The Company accounts for modifications of its Embedded Conversion Features (ECF's) in accordance with EITF 06-6 which requires the modification of a convertible debt instrument that changes the fair value of an embedded conversion feature and the subsequent recognition of interest expense or the associated debt instrument when the modification does not result in a debt extinguishment pursuant to EITF 96-19. "Debtor's Accounting for a Modification or Exchange of Debt Instruments".

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.

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NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Recent Accounting Pronouncements (continued)

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS”. The amendment results in a consistent definition of fair value and ensures the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards (“IFRS”). This amendment changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This amendment will be effective for the Company on January 1, 2012. Based on current operations, the adoption is not expected to have a material effect on the Company’s consolidated financial position or results of operations.

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

In December 2011, FASB issued Accounting Standards Update (“ASU”) No. 2011-12, “Comprehensive Income”. This ASU effectively defers the changes in ASU No. 2011-05, “Presentation of Comprehensive Income” that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. ASU No. 2011-12 should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after 15 December 2011. As ASU No. 2011-12 relates only to the presentation of Comprehensive Income, the Company does not expect the adoption of this update will have a material effect on its consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. The provisions of ASU No. 2011-08 permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. ASU No. 2011-08 includes examples of events and circumstances that may indicate that a reporting unit’s fair value is less than its carrying amount. The provisions of ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted provided that the entity has not yet performed its annual impairment test for goodwill. The provisions of this update are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

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NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

In December 2011, the FASB issued ASU 2011-11, “Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities”. The guidance in this update requires the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The pronouncement is effective for fiscal years and interim periods beginning on or after January 1, 2013 with retrospective application for all comparative periods presented. The Company’s adoption of the new standard is not expected to have a material effect on the Company’s consolidated financial position or results of operations.

NOTE 3 – STOCKHOLDERS’ EQUITY

Common Stock

On December 12, 2006, the Company issued 15,000,000 shares of common stock, par value \$0.00001 per share, to its initial stockholders in exchange for \$50 in cash. In 2007, the Company sold 1,471,502 shares of common stock at \$0.083333 per share for total proceeds of \$122,625 and 250,000 shares of common stock at \$0.20 per share for total proceeds of \$50,000.

In December 2009, the Company issued 6,000,000 of the Company’s common shares valued at \$765,300 as part of the consideration paid to acquire the outstanding shares of Rophe Medical Technologies Inc. (See Note 8).

On December 30, 2009, the Company sold 150,000 shares of its common stock at \$0.10 per share to its president for proceeds of \$15,000. Because the sale price was below the quoted stock price of \$0.15 per share at the time, the Company considered \$7,500 as compensation and recorded the amount as stock based compensation with a corresponding credit to additional paid-in-capital.

During the year ended December 31, 2010, the Company issued 1,133,664 shares of its common stock at \$0.15 per share for cash proceeds of \$170,050.

On October 25, 2010, the Company issued 1,580,000 units at a price of \$0.25 each for total proceeds of \$395,000. Each unit consisted of one share of common stock and 1 stock purchase warrant exercisable on or before December 31, 2011 at the option of the holder, into one share of common stock at an exercise price of \$0.50 per share.

On January 14, 2011, the Company issued 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.

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NOTE 3 – STOCKHOLDERS’ EQUITY (continued)

On September 22, 2011, the Company sold 54,500,000 shares of its common stock at \$0.0001 per share for proceeds of \$5,450, including 38,500,000 shares to its officers. Because the sale price was below the quoted stock price of \$0.05 per share at the time, the Company considered \$2,719,550 as compensation and recorded the amount as stock based compensation with a corresponding credit to additional paid-in- capital.

During the year ended December 31, 2011, the Company issued 883,334 shares of its common stock to creditors in consideration of satisfaction of \$49,434 in outstanding payables.

On October 24, 2011, the Company issued 1,000,000 shares of its common stock valued at \$70,000 to a consultant for the provision of services relating to the marketing of the Company’s business and products to the public.

During the year ended December 31, 2011, the Company issued 13,604,132 shares of its common stock for cash proceeds of \$718,694.

Stock Split

On February 8, 2008 the Board of Directors approved a three-for-one stock split effective February 25, 2008. All references in the consolidated financial statements and related notes related to the number of shares and per share amounts of the common stock have been retroactively restated to reflect the impact of this stock split.

NOTE 4 – WARRANTS

Warrant activity for the years ended December 31, 2011 and 2010 are 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 | 1,580,000 | \$ 0.50 |
| Granted | - | - |
| Balance, December 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. Such registration statement has not been filed yet.

The value of the stock purchase warrants granted in 2010 was valued at \$117,620 using the following assumptions and estimates in the Black-Scholes model: Expected life of 1.2 years, volatility of 100%, dividend yield of 0% and risk-free interest rate of 1.40%.

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NOTE 5 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011, 48,500,000 shares were issued to directors and officers of the Company for a total amount of \$2,425,000, of which \$4,850 was contributed as cash by the directors and officers and \$2,420,150 was granted to them as stock-based compensation.

During the year ended December 31, 2010, 13,500,000 shares were issued to directors and officers of the Company for a total amount of \$3,375,000, of which \$1,350 was contributed as cash by the directors and officers and \$3,373,650 was granted to them as stock-based compensation.

Compensation and other miscellaneous amounts owed to directors and officers amounting to \$640,273 were forgiven during the year ended December 31, 2010, and recorded as a reduction to stock based compensation expense. The net stock based compensation expense amounting to \$2,764,877 is included in general and administration (2010 - \$2,139,877) and in software development costs (2010 - \$625,000) in the consolidated statement of operations. There was compensation of \$116,250 owing to directors and officers of the Company as at December 31, 2010.

Transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 6 – EQUIPMENT

| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| Computer equipment under capital lease | \$ 223,683 | \$ 182,936 |
| Nexus computer equipment under capital lease | 42,023 | 42,023 |
| Total Equipment | 265,706 | 224,959 |
| Less accumulated depreciation | (99,596) | (14,301) |
| Equipment – net | \$ 166,110 | \$ 210,658 |

Depreciation expense for the years ended December 31, 2011, 2010 and period from December 12, 2006 (date of inception) to December 31, 2011 were \$85,296, \$14,127 and \$107,311 respectively.

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NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES

| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| Obligation under capital lease to acquire specific equipment in monthly payments of \$1,326 including interest at 10% per annum, expiring in November 2013 | \$ 21,197 | \$ 42,023 |
| Obligation under capital lease to acquire specific equipment in monthly payments of \$7,212 including interest at 10% per annum, expiring in October 2013 | 156,359 | 182,936 |
| | 177,556 | 224,959 |
| Less: current portion | (94,377) | (79,082) |
| | \$ 83,179 | \$ 145,877 |

Minimum lease payments on capital lease obligations are as follows:

| | |
|------------------------|------------|
| 2012 | \$ 108,231 |
| 2013 | 87,303 |
| | 195,534 |
| Less: imputed interest | (17,978) |
| | \$ 177,556 |

NOTE 8 – 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 December 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.

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NOTE 9 – INCOME TAXES

The Company had no income taxes payable at December 31, 2011 and 2010.

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

| | Year ended December 31, | |
|-------------------------------------|-------------------------|----------------|
| | 2011 | 2010 |
| Net loss for the year | \$ (5,337,700) | \$ (3,662,252) |
| Effective statutory rate | 34% | 34% |
| Expected tax recovery | \$ (1,814,818) | \$ (1,245,166) |
| Net effects of non deductible items | 1,060,511 | 1,068,040 |
| Valuation allowance | 754,307 | 177,126 |
| | \$ - | \$ - |

Deferred income taxes reflect the net income tax effect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and amounts used for income taxes. The Company's deferred income tax assets and liabilities consist of the following:

| | December 31, | |
|----------------------------------|--------------|------------|
| | 2011 | 2010 |
| Net operating loss carry forward | \$ 984,718 | \$ 152,583 |
| Equipment | (31,190) | 149,946 |
| Valuation allowance | (953,528) | (302,529) |
| Net deferred tax assets | \$ - | \$ - |

Net operating loss carry forwards totaled approximately \$2,896,000 at December 31, 2011. The net operating loss carry forwards will begin to expire in the year 2028 if not utilized. After consideration of all the evidence, management has recorded a valuation allowance at December 31, 2011 due to uncertainty of realizing the deferred tax assets. Utilization of the Company's net operating loss carry forwards may be limited based on changes in ownership as defined in Internal Revenue Code Section 382.

NOTE 10 – COMMITMENTS AND 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:

| | |
|------|-----------|
| 2012 | \$ 11,669 |
|------|-----------|

Total \$ 11,669

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KALLO INC.
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NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Commitments (continued)

Capital lease

Minimum lease payments on capital lease obligations are as follows:

| | | |
|------------------------|----|----------|
| 2012 | \$ | 108,231 |
| 2013 | | 87,303 |
| | | 195,534 |
| Less: imputed interest | | (17,978) |
| | \$ | 177,556 |

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 \$104,504 (2010 - \$28,000) was paid in 2011. The remaining balance of \$80,496 is due in 2012.

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.

On March 14, 2012, the Company and the past officer have agreed to settle all the claims in exchange of the Company paying a total of \$130,000 (\$25,000 by March 29, 2012, 10 instalments of \$10,000 for the following ten months, \$5,000 by February 28, 2013) and issuing 500,000 restricted shares of its common stock to the past officer.

On July 29, 2011, Watt International Inc. (“Watt”) commenced a third party claim against Kallo concerning monies that Kallo allegedly owed to Watt for branding and internet services provided by Watt to Kallo. Watt is seeking damages in the amount of \$161,673.67 plus unspecified “special” damage. Management is of the opinion that Watt has charged Kallo for services that Watt did not perform, and that Watt has duplicated charges for work that it performed and intends to defend itself vigorously in the suit. Management has recognized an accrual for the amount of the claim.

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Contingent liability

The Company has calculated the estimated amount of withholding taxes on stock-based compensation based on valuation obtained from a third party. Should the amount payable be different from the estimated amount, the difference will be recorded in the period of payment.

NOTE 11 – LOANS PAYABLE

As at December 31, 2010, a loan payable of \$25,000 bore interest at 12% per annum, accrued and payable quarterly, was unsecured and was payable on December 31, 2011. The holder has the option to convert the loan into common stock of the Company at the rate of \$0.15 per share. This loan was converted into common stock of the Company during the year ended December 31, 2011 at the revised rate of \$0.05 per share. As a result of the change, an extinguishment loss of \$37,404 has been recorded.

As at December 31, 2010, a loan payable of \$17,000 bore interest at 12% per annum, was unsecured and was payable on demand. This loan was converted into common stock of the Company during the year ended December 31, 2011 at the rate of \$0.05 per share.

NOTE 12 – 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 and 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.

JARR Capital’s agreement was effective until December 31, 2011 and they have not been able to raise the financing as per the above agreement.

NOTE 13 – SUBSEQUENT EVENTS

Independent contractor agreement

On January 13, 2012, the Company entered into an Independent Contractor Agreement (the “Agreement”) with Savers Drug Mart (“Savers”) wherein Savers agreed to provide the following services to the Company: pharmacy management; pharmacy technician training; dispensary formulary planning; pharmaceutical procurement; and pricing strategies. The consideration for the services is 3,000,000 shares of the Company’s common stock to be issued pursuant to Form S-8 registration statement. The term of the Agreement begins on January 3, 2012 and ends on December 31, 2013.

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NOTE 13 – SUBSEQUENT EVENTS (continued)

Share issuance

On February 1, 2012, the Company issued 1,193,381 restricted shares of common stock to creditors in consideration of satisfaction of outstanding debts and of services rendered.

On February 29, 2012, the Company's board of directors approved the issuance of 23,016,963 unregistered shares of common stock to 15 individuals in consideration of \$1,150,848.15, of which \$394,474 was received as at December 31, 2011.

NOTE 14 – COMPARATIVES

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

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ITEMCHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL
9. DISCLOSURE.

On October 21, 2009, we terminated Kempisty & Company, Certified Public Accountants, P.C. at 15 Maiden Lane, Suite 1003, New York, New York 10038, as our independent registered public accounting firm. The decision to dismiss Kempisty & Company, Certified Public Accountants, P.C., as our independent registered public accounting firm was approved by our Board of Directors on October 21, 2009. Except as noted in the paragraph immediately below, the reports of Kempisty & Company, Certified Public Accountants, P.C.'s financial statements for the years ended December 31, 2008 and 2007 and for the period January 1, 2009 through June 30, 2009 did not contain an adverse opinion or disclaimer of opinion, and such reports were not qualified or modified as to uncertainty, audit scope, or accounting principle.

The reports of the Kempisty & Company, Certified Public Accountants, P.C., on our financial statements as of and for the years ended December 31, 2008 and 2007 and for the period January 1, 2009 through June 30, 2009 contained an explanatory paragraph which noted that there was substantial doubt as to our ability to continue as a going concern as we had suffered negative working capital, had experienced negative cash flows from continuing operating activities and also due to uncertainty with respect to our ability to meet short-term cash requirements.

During the years ended December 31, 2008 and 2007 and for the period January 1, 2009 through June 30, 2009, and through October 26, 2009 we have not had any disagreements with Kempisty & Company, Certified Public Accountants, P.C., on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to Kempisty & Company, Certified Public Accountants, P.C.'s satisfaction, would have caused it to make reference to the subject matter of the disagreements in its reports on our consolidated financial statements for such years or in connection with its reports in any subsequent interim period through the date of dismissal.

During the years ended December 31, 2008 and 2007, and through October 26, 2009, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K.

On October 26, 2009, we delivered a copy of this report to Kempisty & Company, Certified Public Accountants, P.C. Kempisty & Company, Certified Public Accountants, P.C., issued its response. The response stated that it agreed with the foregoing disclosure. A copy of Kempisty & Company, Certified Public Accountants, P.C.'s response was attached to our Form 8-K filed with the SEC on October 27, 2009.

Subsequent independent registered public accounting firm

On October 21, 2009, we engaged Malone & Bailey, P.C., 10350 Richmond Avenue, Suite 800, Houston, Texas 77042 an independent registered public accounting firm, as our principal independent accountant with the approval of our board of directors. We have not consulted with Malone & Bailey, P.C. on any accounting issues prior to engaging them as our new auditors.

During the fiscal years ended December 31, 2008 and 2007 and through the date of engagement, we have not consulted with Malone & Bailey, P.C. regarding either:

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1. The application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that Malone & Bailey, P.C. concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. Any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-K and the related instruction to Item 304 of Regulation S-K, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-K.

On February 28, 2011, we terminated, MaloneBailey, LLP, 10350 Richmond Avenue, Suite 800, Houston, Texas 77042 as our independent registered public accounting firm. The decision to dismiss MaloneBailey, LLP as our independent registered public accounting firm was approved by our Board of Directors on February 25, 2010. Except as noted in the paragraph immediately below, the reports of MaloneBailey, LLP's financial statements for the year ended December 31, 2009 and for the period January 1, 2010 through September 30, 2010 did not contain an adverse opinion or disclaimer of opinion, and such reports were not qualified or modified as to uncertainty, audit scope, or accounting principle.

The reports of MaloneBailey, LLP on our financial statements as of and for the year ended December 31, 2009 and for the period January 1, 2010 through September 30, 2010 contained an explanatory paragraph which noted that there was substantial doubt as to our ability to continue as a going concern as we had suffered negative working capital, had experienced negative cash flows from continuing operating activities and also due to uncertainty with respect to our ability to meet short-term cash requirements.

During the year ended December 31, 2009 and for the period January 1, 2010 through September 30, 2010, and through February 28, 2011, we have not had any disagreements with MaloneBailey, LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to MaloneBailey, LLP's satisfaction, would have caused it to make reference to the subject matter of the disagreements in its reports on our consolidated financial statements for such years or in connection with its reports in any subsequent interim period through the date of dismissal.

During the year ended December 31, 2009 and through February 28, 2011, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K.

On February 28, 2011, we delivered a copy of this report to MaloneBailey, LLP. MaloneBailey, LLP issued its response. The response stated that it agreed with the foregoing disclosure. A copy of MaloneBailey, LLP's response is attached hereto as Exhibit 16.1.

Subsequent independent registered public accounting firm

On February 28, 2011, we engaged Collins Barrow Toronto LLP, Collins Barrow Place, 11 King Street West, Suite 700, Box 27, Toronto, Ontario, Canada M5H 4C7 an independent registered public accounting firm, as our principal independent accountant with the approval of our board of directors. We have not consulted with Collins Barrow Toronto LLP on any accounting issues prior to engaging them as our new auditors.

During the two most recent fiscal years and through the date of engagement, we have not consulted with Collins Barrow Toronto LLP regarding either:

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1. The application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that Collins Barrow LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. Any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-K and the related instruction to Item 304 of Regulation S-K, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-K.

On February 6, 2012, Collins Barrow Toronto LLP, Collins Barrow Place, 11 King Street West, Suite 700, Box 27, Toronto, Ontario, Canada M5H 4C7 terminated its relationship with us as our auditor. Collins Barrow Toronto LLP advised us that its decision to terminate our relationship was based its decision to cease doing US public company audits, except for certain circumstances. Except as noted in the paragraph immediately below, the reports of Collins Barrow Toronto LLP's financial statements for the year ended December 31, 2010 and for the period January 1, 2011 through September 30, 2011 did not contain an adverse opinion or disclaimer of opinion, and such reports were not qualified or modified as to uncertainty, audit scope, or accounting principle.

The report of Collins Barrow Toronto LLP on our financial statements as of and for the year ended December 31, 2010 contained an explanatory paragraph which noted that there was substantial doubt as to our ability to continue as a going concern as we had suffered negative working capital, had experienced negative cash flows from continuing operating activities and also due to uncertainty with respect to our ability to meet short-term cash requirements.

During the year ended December 31, 2010 and for the period January 1, 2011 through September 30, 2011, and through February 6, 2012, we have not had any disagreements with Collins Barrow Toronto LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to Collins Barrow Toronto LLP's satisfaction, would have caused it to make reference to the subject matter of the disagreements in its reports on our consolidated financial statements for such years or in connection with its reports in any subsequent interim period through the date of dismissal.

During the year ended December 31, 2010 and through February 6, 2012, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K.

On February 9, 2012, we delivered a copy of this report to Collins Barrow Toronto LLP. On February 10, 2012, Collins Barrow Toronto LLP replied ("Exhibit 16.1 hereto"). In its reply, Collins Barrow Toronto LLP agreed with our statements except with the statement in the first paragraph relating to its decision to cease doing US public company audits advising us that it should include the caveat that under certain circumstances it would continue to do US public company audits. Further, Collins Barrow Toronto LLP disagreed with our statement that "we issued reports for the period January 1, 2011 through September 30, 2011". They state that the only report issued by Collins Barrow was on the financial statements as of and for the year ended December 31, 2010. We concur that only one report was issued during the year ended December 31, 2010 and for the period January 1, 2011 through September 30, 2011.

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New independent registered public accounting firm

On February 10, 2012, we engaged Schwartz Levitsky Feldman LLP, 2300 Yonge Street, Suite 1500, Toronto, Ontario, Canada M4P 1E4 an independent registered public accounting firm, as our principal independent accountant with the approval of our board of directors. We have not consulted with Schwartz Levitsky Feldman LLP on any accounting issues prior to engaging them as our new auditors.

During the two most recent fiscal years and through the date of engagement, we have not consulted with Schwartz Levitsky Feldman LLP regarding either:

1. The application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that Schwartz Levitsky Feldman LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. Any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-K and the related instruction to Item 304 of Regulation S-K, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-K.

ITEM 9A. 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.

Management’s Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a -15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of the inherent limitations due to, for example, the potential for human error or circumvention of controls, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may

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become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that the Company’s internal control over financial reporting was not effective as of December 31, 2011. Material weakness identified included:

- * Lack of segregation of duties
- * Presence of adjusting journal entries identified by the auditors during the audit of the company’s financial statements for the year ended December 31, 2011.

We have not taken any steps to remedy the foregoing material weaknesses.

Changes in Internal Controls

We have also evaluated our internal controls for financial reporting, and there have been no changes in our internal controls or in other factors that could affect those controls subsequent to the date of their last evaluation.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

Each of our directors serves until his or her successor is elected and qualified. Each of our officers is elected by the board of directors to a term of one (1) year and serves until his or her successor is duly elected and qualified, or until he or she is removed from office. The board of directors has no nominating, auditing or compensation committees. It does have an audit committee comprised of the board of directors.

The name, address, age and position of our present officers and directors are set forth below:

| Name and Address | Age | Position(s) |
|---|-----|--|
| John Cecil 15 Allstate Parkway, Suite 600 Markham, ON L3R 5B4 | 49 | Chairman and Chief Executive Officer, Chief Financial Officer And a Director |
| Vince Leitao 15 Allstate Parkway, Suite 600 Markham, ON L3R 5B4 | 50 | President and Chief Operating Officer and a Director |

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| | | |
|---|----|---------------------------------------|
| Lloyd A. Chiotti 31 Sisman Avenue Aurora, ON, L4G 6R9 | 64 | Director |
| Samuel R Baker 89 Shawnee Circle Toronto, ON, M2H 2X9 | 77 | Corporate Secretary and a Director |

Background of officers and directors

On October 20, 2010, John Cecil was appointed Chairman of the Board and Chief Executive Officer and a Director. And as of March 25, 2011, John Cecil was appointed the treasurer, principal financial officer and principal accounting officer of Kallo Inc. Since December 31, 2009, John Cecil was on our board of directors. Since December 2003 John Cecil has been the president of Rophe Medical Technologies Inc., in Toronto, Canada. He is responsible for its research and development and the design and copyright of the company’s technology. From May 2008 to April 2009 Mr. Cecil was the Senior Healthcare Solutions Architect at SUN Microsystems Canada Inc., in Toronto, Canada, a publicly traded company listed on the NASDAQ under the symbol JAVA. He was responsible for Innovative product positioning by workshops / white board sessions with stakeholders of the customer to increase business value and support sales in revenue growth and design innovative technology solutions. From April 2007 to May 2008, Mr. Cecil was the Healthcare Director at Satyam Computer Service Ltd., in Toronto, Canada, a publicly traded company listed on the NYSE under the symbol SAY. He managed healthcare consulting practices and services.

On October 20, 2010, Vince Leitao was appointed as President, Chief Operating Officer and a Director. Since October 27, 2009, Vince Leitao was President, principal executive officer and a director. Since September 2006, Mr. Leitao has been president of Goapharma Canada, Inc., located in Markham, Ontario, Canada, which he founded. Goapharma Canada Inc. is engaged in the business of producing and marketing specialty dermatology products for psoriasis and eczema. Prior to 2006, Mr. Leitao was vice president of sales for Genpharm/Gennium Pharma divisions of E. Merck, Damsdart. From January 2001 to April 2004, Mr. Leitao was a director – sales for Genpharm and from April 1999 to December 2000, he served as a sales representative with Genpharm.

On December 31, 2009, Samuel Baker was appointed to our board of directors. Since October 1997 Samuel R. Baker has been the Senior Lawyer at Baker Law Firm in Toronto, Canada. Since September 2008, Mr. Baker has been the director of Arehada Mining Limited. Arehada Mining Limited operates a lead/zinc mine in Inner Mongolia, China. It is a public company traded on the Toronto Stock Exchange, ticker symbol AHD.

On September 22, 2011, Lloyd Chiotti was appointed to our board of directors, Lloyd Chiotti has held several senior management positions including Director of Information Services and a number of Regional General Manager roles within Operations with Enbridge Gas Distribution (formerly The Consumers Gas Company) for over 30 years. In addition to these responsibilities, he played a leadership role in helping the organization prepare for a new regulatory framework (moving from “Cost of Service” regulation to “Incentive” regulation). Most recently he was appointed to the newly formed position of Director, Distribution Asset Management, responsible for overseeing the development of Enbridge Gas Distribution’s Strategic Asset Plan. He is actively involved in the natural gas industry. He is currently the Chair of the Asset Management Task Force of the Canadian Gas Association and he is a member of the Distribution Working Committee of the International Gas Union.

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Conflicts of Interest

There is no conflict that we foresee as our officers and directors devote full time to the business and the operations of the company except for Samuel R. Baker and Lloyd Chiotti who are not full time in the organization.

Involvement in Certain Legal Proceedings

Other than as described in this section, to our knowledge, during the past five years, no present or former director or executive officer of our company: (1) filed a petition under the federal bankruptcy laws or any state insolvency law, nor had a receiver, fiscal agent or similar officer appointed by a court for the business or present of such a person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer within two years before the time of such filing; (2) was convicted in a criminal proceeding or named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from or otherwise limiting the following activities: (i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, associated person of any of the foregoing, or as an investment advisor, underwriter, broker or dealer in securities, or as an affiliated person, director of any investment company, or engaging in or continuing any conduct or practice in connection with such activity; (ii) engaging in any type of business practice; (iii) engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodity laws; (4) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described above under this Item, or to be associated with persons engaged in any such activity; (5) was found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission to have violated any federal or state securities law and the judgment in subsequently reversed, suspended or vacate; (6) was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated.

Audit Committee and Charter

We have a separately designated audit committee of the board. Our board of directors performs audit committee functions. None of our directors are deemed independent. Three of our directors also hold positions as our officers. Our audit committee is responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) engaging outside advisors; and, (5) funding for the outside auditors and any outside advisors engagement by the audit committee. A copy of our audit committee charter is filed as an exhibit to our 2007 Form 10-K.

Audit Committee Financial Expert

We do have an external audit committee financial expert.

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Code of Ethics

We have adopted a corporate code of ethics. We believe our code of ethics is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. A copy of the code of ethics is filed as an exhibit to our 2007 Form 10-K.

Disclosure Committee and Committee Charter

We have a disclosure committee and disclosure committee charter. Our disclosure committee is comprised of all of our officers and directors. The purpose of the committee is to provide assistance to the Chief Executive Officer and the Chief Financial Officer in fulfilling their responsibilities regarding the identification and disclosure of material information about us, and the accuracy, completeness and timeliness of our financial reports. A copy of the disclosure committee charter is filed as an exhibit to our 2007 Form 10-K.

Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, officers and persons who beneficially owned more than ten percent of the Company's common stock to file reports of ownership and changes in ownership of common stock.

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company during the fiscal years 2008 and 2007, Mr. Gandhi, our former Treasurer, Principal Financial Officer and Principal Accounting Officer, did not file his Form 3 until March 26, 2009. On August 12, 2008, Mr. Gandhi purchased 119,700 common shares.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the compensation paid by us during the last three fiscal years for our officers. This information includes the dollar value of base salaries, bonus awards and number of stock options granted, and certain other compensation, if any. The compensation discussed addresses all compensation awarded to, earned by, or paid to our named executive officers.

| Summary Compensation Table | | | | | | | | | | |
|---------------------------------------|------|----------------|---------------|----------------|----------------|---|---|--------------------------------------|----------------|--|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | |
| Name and Principal Position [1] | Year | Salary (\$) | Bonus (\$) | Awards (\$) | Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value & Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Totals (\$) | |
| John Cecil Chairman & CEO | 2011 | 147,414 | 0 | 01,772,210 | 0 | 0 | 0 | 0 | 01,919,624 | |
| | 2010 | 22,946 | 0 | 624,750 | 0 | 0 | 0 | 0 | 0 647,696 | |
| Vince Leitao President | 2011 | 147,414 | 0 | 548,900 | 0 | 0 | 0 | 0 | 0 696,314 | |
| | 2010 | 17,946 | 0 | 01,249,500 | 0 | 0 | 0 | 0 | 01,267,446 | |

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| | | | | | | | | | |
|--------------|------|-------|---|---------|---|---|---|---|---------|
| Samuel Baker | 2011 | 6,000 | 0 | 299,400 | 0 | 0 | 0 | 0 | 305,400 |
| Secretary | 2010 | 6,000 | 0 | 249,900 | 0 | 0 | 0 | 0 | 255,900 |

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| | | | | | | | | |
|--|--------------|-------------|---------------|--------|--------|--------|--------|--------------|
| Mary Kricfalusi Secretary Resigned (11/17/10) | 2010 | 3,500 | 0499,800 | 0 | 0 | 0 | 0 | 503,300 |
| Leonard Steinmetz Treasurer Terminated (03/25/11) | 2011 2010 | 0 11,000 | 0 0749,700 | 0 0 | 0 0 | 0 0 | 0 0 | 0 760,700 |

The above salaries accrued from 2007 have not been paid as of yet to this date and the above bonuses have been accrued and not paid as of this date.

Herb Adams entered into a materially definitive settlement agreement on January 12, 2011 to forgive and remove all accrued payables to him.

Mary Kricfalusi entered into a materially definitive settlement agreement on November 17, 2010 to forgive and remove all accrued payables to her.

The following table sets forth information with respect to compensation paid by us to our directors during the last completed fiscal year December 31, 2011.

| Director Compensation Table | | | | | | | |
|-----------------------------|---|-------------------------|--------------------------|---|---|---|---------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compen- sation (\$) | Total (\$) |
| John Cecil | 147,414 | 1,772,210 | 0 | 0 | 0 | 0 | 1,919,624 |
| Vince Leitao | 147,414 | 548,900 | 0 | 0 | 0 | 0 | 696,314 |
| Lloyd Chiotti | 0 | 149,700 | 0 | 0 | 0 | 0 | 149,700 |
| Leonard Steinmetz | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Samuel Baker | 6,000 | 299,400 | 0 | 0 | 0 | 0 | 305,400 |

All compensation received by our officers and directors has been disclosed.

Option/SAR Grants

There are no stock option, retirement, pension, or profit sharing plans for the benefit of our officers and directors

Long-Term Incentive Plan Awards

We do not have any long-term incentive plans that provide compensation intended to serve as incentive for performance.

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Compensation of Directors

The members of our board of directors are not compensated for their services as directors. We do not have employment contracts with our directors (who are also officers), except for Leonard Steinmetz, whose employment agreement as an officer (CFO) has been terminated for cause as of March 25th 2011 at a board meeting.

Indemnification

Under our Bylaws, we may indemnify an officer or director who is made a party to any proceeding, including a lawsuit, because of his position, if he/she acted in good faith and in a manner he/she reasonably believed to be in our best interest. We may advance expenses incurred in defending a proceeding. To the extent that the officer or director is successful on the merits in a proceeding as to which he/she is to be indemnified, we must indemnify him/her against all expenses incurred, including attorney's fees. With respect to a derivative action, indemnity may be made only for expenses actually and reasonably incurred in defending the proceeding, and if the officer or director is judged liable, only by a court order. The indemnification is intended to be to the fullest extent permitted by the laws of the State of Nevada.

Regarding indemnification for liabilities arising under the Securities Act of 1933, which may be permitted to directors or officers under Nevada law, we are informed that, in the opinion of the Securities and Exchange Commission, indemnification is against public policy, as expressed in the Act and is, therefore, unenforceable.

ITEMSECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

12.

The following table sets forth, as of the date of this report, the total number of shares owned beneficially by each of our directors, officers and key employees, individually and as a group, and the present owners of 5% or more of our total outstanding shares. The stockholder listed below has direct ownership of his/her shares and possesses sole voting and dispositive power with respect to the shares.

| Name and Address Beneficial Owner [1] | Number of Shares Owned | Percentage of Ownership |
|--|---------------------------|----------------------------|
| John Cecil [2] 15 All State Parkway, Suite 600 Markham, ON L3R 5B4 | 39,200,000 | 28% |
| Vince Leitao 15 All State Parkway, Suite 600 Markham, ON L3R 5B4 | 16,880,633 | 12% |
| Lloyd Chiotti 31 Sisman Avenue Aurora, ON, L4G 6R9 | 9,241,736 | 7% |
| Samuel Baker [3] 89 Shawnee Circle Toronto, ON, M2H 2X9 | 7,800,000 | 6% |
| All Officers and Directors as a Group (4 persons) | 73,122,369 | 53% |

Mary Kricfalusi
186 Maurice Dr.
Oakville, ON L6K 2W9

8,000,000

6%

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- [1] The persons named above may be deemed to be a “parent” and “promoter” of our company, within the meaning of such terms under the Securities Act of 1933, as amended, by virtue of his/its direct and indirect stock holdings.
- [2] Includes 2,600,000 shares of common stock owned by Grace Cecil, the wife of John Cecil.
- [3] Includes 400,000 shares of common stock owned by Carol Baker, the wife of Samuel Baker.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In December 2006, we issued a total of 5,000,000 shares of pre-dividend restricted common stock to Herb Adams, Mary Kricfalusi, and John Dow our officers and directors in consideration of \$50. On June 25, 2007, we completed our public offering of 490,500 pre-dividend shares of common stock and raised \$122,625. On December 28, 2007, we sold 83,334 pre-dividend restricted shares of our common stock pursuant to the exemption contained in Reg. S of the Securities Act of 1933, as amended at an offering price of \$0.60 per share for cash proceeds of \$50,000. A stock dividend was declared on February 11, 2008, wherein two additional common shares were issued for each one common share issued and outstanding as at February 25, 2008.

On December 30, 2009 we sold 150,000 restricted shares of common stock at \$0.10 per share to our President for proceeds of \$15,000.

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 restricted shares of the Company’s common stock. This transaction was closed December 31, 2009 and we issued 3,000,000 restricted shares of our common stock valued at \$365,000. Of these shares 1,200,000 shares went to John Cecil one of our directors, 1,200,000 shares to John’s wife Grace Cecil, 300,000 shares to Samuel Baker one of our directors and 300,000 to Samuel Baker’s wife Carol Baker.

Subsequently, the Rophe Acquisition payment terms were amended and 3,000,000 additional shares of common stock were issued in 2009 as payment for \$400,000 with the shares issued to John Cecil (1,200,000 shares), Grace Cecil (1,200,000 shares), Samuel Baker (300,000 shares) and Carol Baker (300,000 shares).

During the year ended December 31, 2010, 13,500,000 shares were issued to directors and officers of the Company for a total amount of \$3,375,000, of which \$1,350 was contributed as cash by the directors and officers and \$3,373,650 was granted to them as stock based compensation, issued as follows: 3,000,000 shares to Leonard Steinmetz, 2,500,000 shares John Cecil, 5,000,000 shares to Vince Leitao, 2,000,000 shares to Mary Kricfalusi and 1,000,000 shares Samuel Baker.

In addition, directors and officers agreed to forgive \$604,774 of debts and compensation owing to them, as follows:

| | | |
|-----------------|----|---------|
| John Cecil | \$ | 51,097 |
| Vince Leitao | \$ | 85,394 |
| Sam Baker | \$ | 56,254 |
| Mary Kricfalusi | \$ | 237,048 |
| Herb Adams | \$ | 174,981 |

During the year ended December 31, 2011, 48,500,000 shares were issued to directors and officers of the Company for a total amount of \$2,425,000, of which \$4,850 was contributed as cash by the directors and officers and \$2,420,150 was granted to them as stock based compensation, issued as follows: 27,500,000 shares to John Cecil,

11,000,000 shares to Vince Leitao, 6,000,000 shares to Samuel Baker and 3,000,000 to Lloyd Chiotti.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

(1) Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for our audit of annual financial statements and review of financial statements included in our Form 10-Qs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years was:

| | | | |
|------|----|--------|----------------------------|
| 2011 | \$ | 63,000 | Collins Barrow Toronto LLP |
| 2010 | \$ | 11,300 | Collins Barrow Toronto LLP |
| 2010 | \$ | 17,000 | Malone & Bailey, P.C. |

(2) Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountants that are reasonably related to the performance of the audit or review of our financial statements and are not reported in the preceding paragraph:

| | | | |
|------|----|--------|----------------------------|
| 2011 | \$ | 48,689 | Collins Barrow Toronto LLP |
| 2010 | \$ | -0- | Collins Barrow Toronto LLP |
| 2010 | \$ | -0- | Malone & Bailey, P.C. |

(3) Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning was:

| | | | |
|------|----|-------|----------------------------|
| 2011 | \$ | 7,125 | Collins Barrow Toronto LLP |
| 2010 | \$ | -0- | Collins Barrow Toronto LLP |
| 2010 | \$ | -0- | Malone & Bailey, P.C. |

(4) All Other Fees

The aggregate fees billed in each of the last two fiscal years for the products and services provided by the principal accountant, other than the services reported in paragraphs (1), (2), and (3) was:

| | | | |
|------|----|--------|----------------------------|
| 2011 | \$ | 7,210 | Collins Barrow Toronto LLP |
| 2010 | \$ | 10,000 | Collins Barrow Toronto LLP |
| 2010 | \$ | -0- | Malone & Bailey, P.C. |

(5) Our audit committee's pre-approval policies and procedures described in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X were that the audit committee pre-approve all accounting related activities prior to the performance of any services by any accountant or auditor.

(6) The percentage of hours expended on the principal accountant's engagement to audit our financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full time, permanent employees was 0%.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

| 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 | |

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| | | | | |
|-------|---|-----|----------|------|
| 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 |
| 10.17 | North American Authorized Agency Agreement with Advanced Software Technologies, Inc. | 8-K | 12/16/10 | 10.1 |

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| | | | | | |
|---------|---|------|----------|------|---|
| 10.18 | Amended Agreement with Jarr Capital Corp. | 8-K | 2/22/11 | 10.1 | |
| 10.19 | Termination of Employment Agreement with John Cecil. | 8-K | 2/22/11 | 10.2 | |
| 10.20 | Termination of Employment Agreement with Vince Leitao. | 8-K | 2/22/11 | 10.3 | |
| 10.21 | Termination of Employment Agreement with Samuel Baker. | 8-K | 2/22/11 | 10.4 | |
| 10.22 | Services Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K | 5/18/11 | 10.1 | |
| 10.23 | Equipment Lease Agreement with Buchanan Associates Computer Consulting Ltd. | 10-K | 5/18/11 | 10.2 | |
| 10.24 | Agreement with Mansfield Communications Inc. | 10-K | 5/18/11 | 10.3 | |
| 10.25 | Agreement with Watt International Inc. | 10-K | 5/18/11 | 10.4 | |
| 10.26 | Pilot EMR Agreement with Nexus Health Management Inc. | 10-K | 5/18/11 | 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 | |
| 23.1 | Consent of Schwartz Levitsky Feldman LLP. | | | | X |
| 31.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 99.1 | Audit Committee Charter. | 10-K | 4/15/08 | 99.1 | |
| 99.2 | Disclosure Committee Charter. | 10-K | 4/15/08 | 99.2 | |
| 101.INS | XBRL Instance Document. | | | | X |

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 16th day of April, 2012.

KALLO INC.

BY: JOHN CECIL
 John Cecil
 Principal Executive Officer, Principal
 Financial Officer, Principal Accounting
 Officer and Chairman of Board of Directors

BY: VINCE LEITAO
 Vince Leitao
 President, Chief Operating Officer and a
 member of the Board of Directors

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|--------------------------------------|--|----------------|
| JOHN CECIL John Cecil | Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and Chairman of Board of Directors | April 16, 2012 |
| VINCE LEITAO Vince Leitao | President, Chief Operating Officer and a member of the Board of Directors | April 16, 2012 |
| SAMUEL BAKER Samuel Baker | Corporate Secretary and member of the Board of Directors | April 16, 2012 |
| LLOYD A. CHIOTTI Lloyd A. Chiotti | Member of the Board of Directors | April 16, 2012 |

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EXHIBIT INDEX

| Exhibit | Document Description | Incorporated by reference | | | Filed herewith |
|---------|---|---------------------------|----------|--------|-------------------|
| | | Form | Date | Number | |
| 2.1 | Articles of Merger. | 8-K | 1/21/11 | 2.1 | |
| 3.1 | Articles of Incorporation. | SB-2 | 3/05/07 | 3.1 | |
| 3.2 | Bylaws. | SB-2 | 3/05/07 | 3.2 | |
| 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 | |

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| 10.18 | Amended Agreement with Jarr Capital Corp. | 8-K | 2/22/11 | 10.1 |

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