

Kallo Inc.
Form 10-K/A
April 20, 2016

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

FORM 10-K/A-1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 For the fiscal year ended December 31, 2015

Commission file number 000-53183

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

Nevada 98-0542529
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

675 Cochrane Drive, West Tower, Suite 630
Markham, Ontario, Canada L3R 0B8
(Address of Principal Executive Offices) (Zip Code)

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

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

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 not 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 (§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

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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 Accelerated Filer
Non-accelerated Filer Smaller Reporting Company
(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 June 30, 2015: \$9,042,611

The registrant had 6,845,787,739 shares of common stock outstanding as of March 29, 2016.

REASON FOR AMENDMENT

The purpose of this Amendment to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 is to furnish the Interactive Data File exhibits pursuant to Rule 405 of Regulation S-T.

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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. and then changed our name to Diamond Technologies Inc. and then to our current name of Kallo Inc. On December 11, 2009, we merged with Kallo Technologies Inc. (formerly known as Rophe Medical Technologies Inc.), an 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 common shares and \$1,200,000.

Upon acquiring Rophe, the focus of our business was to develop medical information technology software. It has since expanded to the delivery and support of an end to end healthcare solution for developing countries and rural communities with the focus on improving all aspects of health care delivery.

Business Overview

Our end to end health care solution is called the Kallo Integrated Delivery System (KIDS) and consists of the following 3 components:

1. Care Platforms

These include the care facility platforms – MobileCare™ and RuralCare™ described in more detail in the MD&A section, Dialysis care and brick and mortar hospitals as well as the emergency medical services care both land and air transportation.

2. Digital Technology

This component of the business includes the Electronic Medical Records (EMR), Picture Archiving and a. Communication System (PACS), eLearning system, eGovernance solutions as well as our Tele-health solution that supports the Global and Regional response centers for real time support of medical emergencies.

3. Education & Training

This component includes the education and training for all aspects of healthcare management – clinical including a. clinical informatics, engineering including bio-medical, information and communications technology and health administration.

Each of these components are included in the full KIDS solution but can also be used as individual components to enhance an existing health care infrastructure.

Kallo's Copyrighted Technologies:

The following technologies are protected under Canadian and International copyrights and are authored by John Cecil and owned by Kallo Inc. Kallo Inc. has ownership rights of the products referred in this section, of which B, C, and D are under development

A. M.C. Telehealth – Mobile Clinic Telehealth System – Developed and launched in November 2011.

B. EMR Integration Engine – Electronic Medical Record Integration Engine - Under development.

C. C&ID-IMS – Communicable and Infectious Disease Information Management System - Under Development

D. CCG Technology – Clinical-Care Globalization technology – Under Development

The following is a summary of the information:

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Number	Date of Filing	Place of Filing	Duration
1072203	November 3, 2009	Canada	Life of the Author, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year
1072204	November 3, 2009	Canada	Life of the Author, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year
1072205	November 3, 2009	Canada	Life of the Author, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year
1072543	November 17, 2009	Canada	Life of the Author, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year

Our Products in Development

Kallo's product portfolio 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. EMR Integration Engine is software, which connects all the other applications in or outside a hospital/clinic with the EMR system. This enables the doctor/nurse to seamlessly access information in other healthcare applications without moving from one computer to the next.

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 many countries. CCG can be used by both the destination and home country of a patient 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.

5. KIDS (Kallo Integrated Delivery System), a Technology & process framework defines and describes the component parts of the various products and services that Källo is delivering to its clients, including the human resources component, and how these parts interact and relate to one another. The framework also recognizes the need for collaboration with local care facilities, services and providers to support continuity of care and facilitate patient transport between facilities.

6. KIDS (Kallo Integrated Delivery System) Global Tele-Health Ecosystems. The Tele-health Program encompasses the broad variety of Technologies and administrative processes needed to deliver virtual medical care, health promotion/prevention and other patient education to KIDS patients. The tele-health program facilitates synchronous and asynchronous interactions where patients or care providers are in different locations and includes scheduling, information delivery and care management services.

Target Market

Our primary target market for the Kallo Integrated Delivery System is global with the current focus in developing countries where health care services are limited. We have established several sales and marketing partnership agreements under "Business Associate" section either representing Kallo independently or as an organization. We are currently in various stages of our sales cycle with more than 10 countries.

Additionally, with the components of our KIDS solution, we are targeting markets where we can provide complimentary services to existing health care infrastructures. These markets include the following:

- Communicable & Infectious disease Information Management System – supporting World Health Organization (WHO) and Center for Disease Control (CDC); \$200B market
- Electronic Medical Records integration engine for Health Information Access Layer – focused on clinics, hospitals, IDC & IHC; \$100B market
- Clinical Care Globalization – focused on medical tourism; \$40B market
- Mobile Medical Clinics – focused on disaster recovery management and rural community health services for wide range of services, HIV monitoring, chemotherapy, acute care, dialysis, etc; \$30B market

Intellectual Property and Research and Development

We continue our efforts in research and development through collaborations with medical faculties in Canada and the United States on an ongoing basis where our company stands to benefit from the technology ownership of the treatment or diagnostic systems developed for commercial use.

During 2015, we did incur expenses (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.

Competition

We compete with many entities in various sectors; mobile clinic and temporary medical facility manufacturers, health care equipment resellers, EMR developers, health care education providers, EMS contracted services, etc. Our competitors tend to be focused on a component of our health care solution, but do have established histories in their particular area of expertise affording them a resource advantage. We are effectively in the start-up phase of operations and as a result, we have little or no impact upon our competition. Our differentiating factor however is our fully integrated solution. In the opportunities that we have been engaged in, we have not encountered a competitor that offers the full end to end solution that we are proposing to our customers.

Managements View of the Market Trend

Our management believes that we are well positioned to assist in the global focus on improving health care delivery through our solution platforms. Global spending on health care in 2013 totaled \$7.2 trillion or 10.6% of global gross domestic product. Health spending is expected to rise an average of 5.2% a year in 2014 – 2018 to \$9.3 trillion. A number of the driving factors of the increase, emerging market expansion, infrastructure improvements and treatment and technology advances, fall into our portfolio of products and services. Other factors include the health needs of an aging and growing population as well as the rising prevalence of chronic diseases. The most rapid growth is expected to be in the Middle East and Africa due, in part, to population growth and efforts to expand access to care. All figures quoted from "World Industry Outlook: Healthcare and Pharmaceuticals, The Economist Intelligence Unit, May 2104".

In addition, of the eight Millennium Development Goals detailed by the United Nations, three of the initiatives are related to improvements in healthcare delivery. They include Goal 4: Reduce Child Mortality, Goal 5: Improve Maternal Health, and Goal 6: Combat HIV/Aids, Malaria and Other Diseases. These remain focus areas for global

improvement.

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The challenges that we have seen in the market are primarily due to the lengthy sales cycle involved in the healthcare sector. Kallo has a detailed sales process which allows us to fully understand the customer needs prior to quoting a solution. Once selected for the project, we work through the formal approval process of multiple government ministries. This process of coordination of approvals, financing complexities and the possibility of electoral and cabinet changes creates significant forecasting challenges.

Government Regulation and Compliance

The healthcare regulations and standards vary widely in the geographic areas that we are focused in, with the primary concerns around patient health, safety, and privacy. With rapid advances in clinical and technology changes, the increased scrutiny by governments, the media and consumers has created continual monitoring and increased regulation on drug and patient safety specifically.

Within the global market that we serve, North America has some of the most stringent regulations and standards for medical technology and pharmaceutical approvals. As such, we have partnered with a number of major biomedical suppliers to ensure the highest standards of equipment. We intend to utilize only the highest standards of product regardless of the market that we are serving.

Agreement with Kodiak Capital Group, LLC

On July 15, 2014, we entered into an Investment Agreement with Kodiak wherein it was agreed that we could "Put" to Kodiak up to 50,000,000 common shares provided that the investment amount, when taken together with all other "Put Notices", shall not exceed \$2,000,000. The contract terminated December 31, 2015.

Employees

As of March 24, 2016, we have nineteen full time employees.

Warranties

We do not provide warranties in connection with our products or services. Our third party products are supplied with the manufacturer's warranty and we offer additional coverage with a service agreement.

Insurance

We currently do not have insurance but do intend to insure the business as soon as fiscally possible.

Executive Offices

Our administrative office is located at 675 Cochrane Drive, Suite 630, Markham, Ontario, Canada, L3R 0B8, our telephone number is (416) 246-9997. We sublease this space from Bilfinger RE Asset Management Inc., pursuant to a written sublease expiring on January 31, 2017. Our monthly lease payment is approximately \$22,000. Our registered agent for services of process is the Corporation Trust Company of Nevada, located at 6100 Neil Road, Suite 500, Reno, Nevada 89511. Our fiscal year end is December 31st.

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.

ITEM 2. PROPERTIES.

Our properties consist mainly of leased office facilities. The executive offices of Kallo Inc. are located at 675 Cochrane Drive, Suite 630, Markham, Ontario, Canada, L3R 0B8, our telephone number is (416) 246-9997.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II

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

Our shares are traded on OTC Markets under the symbol "KALO". A summary of trading by quarter for 2015 and 2014 is as follows:

Fiscal Year		High Bid	Low Bid
2015			
	Fourth Quarter 10-1-15 to 12-31-15	\$0.0011	\$0.0001
	Third Quarter 7-1-15 to 9-30-15	\$0.035	\$0.0008
	Second Quarter 4-1-15 to 6-30-15	\$0.15	\$0.265
	First Quarter 1-1-15 to 3-31-15	\$0.11	\$0.0462

Fiscal Year		High Bid	Low Bid
2014			
	Fourth Quarter 10-1-14 to 12-31-14	\$0.25	\$0.025
	Third Quarter 7-1-14 to 9-30-14	\$0.08	\$0.0401
	Second Quarter 4-1-14 to 6-30-14	\$0.11	\$0.0301
	First Quarter 1-1-14 to 3-31-14	\$0.45	\$0.03

Dividends

We have not declared any cash dividends, nor do we intend to declare cash dividends at this point. 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.

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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 FINRA'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 currently have two equity compensation plans: the 2012 Non-Qualified Incentive Stock Option Plan and the 2011 Non-Qualified Incentive Stock Option Plan.

The 2012 Non-Qualified Incentive Stock Option Plan provides for the issuance of shares of our Common Stock for services rendered to us. The board of directors is vested with the power to determine the terms and conditions of the options. The Plan includes 50,000,000 shares of common stock.

The 2011 Non-Qualified Incentive Stock Option Plan provides for the issuance of shares of our Common Stock for services rendered to us. The board of directors is vested with the power to determine the terms and conditions of the shares. The Plan included 10,000,000 shares of common stock. On September 7, 2012, 7,233,334 shares have been issued under this 2011 Non-Qualified Stock Option Plan; and, 2,766,666 shares of common stock remain available under this plan.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a)) (c)
Equity compensation plans approved by security holders	None	None	None
Equity compensation plans not approved by securities holders	0	\$0.0	52,766,666
Total	0	\$0.0	52,766,666

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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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

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

For the last five fiscal years, starting January 2010, our management and board of directors have raised funds through a personal and professional network of investors. This has enabled product and business development, continued operations, and generation of customer interest. In order to continue operations, management has contemplated several options to raise capital and sustain operations in the next 12 months. These options include, debt and equity offers to existing shareholders, debt and equity offers to independent investment professionals and through various other financing alternatives. Management's opinion is that the combination of the three options along with the forecasted closing of at least one project will enable continued operations for the next 12 months. There is no assurance that we will receive additional money from these options and our existing shareholders are under no legal duty to provide us with additional financing nor have our shareholders committed to provide us with additional financing. Management believes that the Company can be generating sufficient cash flow from operation from the several potential projects as detailed below within the next 3 months and any additional funding can be met through one of the three options mentioned.

On December 24, 2015, we received a purchase request from Chrispod Limited in response to a proposal we submitted to Chrispod Limited on December 1, 2015, for medical equipment for the Ministry of Health in Ghana for regional hospital use. Chrispod Limited was awarded the contract on December 27th, 2012 and it was recently reapproved by the Minister of Health for delivery in 2016. Chrispod Limited has subcontracted Kallo for the delivery of the equipment as stated in our proposal and is currently awaiting final approval for the financing offer that was presented to the Minister of Finance. The full contract is approved for \$60,058,000 US dollars, of which the Kallo proposed component will be \$21,753,801 US dollars. The contract is in the final approval stage with the Minister of Finance. Under this contract, Kallo will supply medical equipment and accessories and other essential hospital equipment. Installation of the medical equipment is not included in the project scope. There is no assurance any equipment will be sold to Chirspod Limited.

On January 23, 2014, we announced the signing of a US\$200,000,925 (Two Hundred million nine hundred and twenty-five US dollars) Supply Contract with the Ministry of Health and Public Hygiene of the Republic Of Guinea.

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On April 14, 2015, the Minister of Health and Public Hygiene, in a letter confirmed the selection of Kallo Inc., as supplier pursuant to the MobilCare™ Supply Contract, to design and build specialized hospitals in the regions of Conakry, Kindia, Labe, Kankan and Nzerekore, and asked Kallo to mobilize its technical teams for site visits to engage in preliminary studies for the construction of these hospitals. No equipment has been sold under the terms of this supply contract, nor is there any assurance any equipment will be sold thereunder.

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On October 11, 2015, the Republic of Guinea held their presidential election and the incumbent Prof. Alpha Conde was re-elected as affirmed by the National Electoral Commission on October 17, 2015. His formal inauguration occurred on December 14, 2015. With his re-election, there have been a number of cabinet changes, including the appointment of Dr. Abdou Diallo as the Minister of Health in early January. All of the project material has been provided to Dr. Diallo.

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

The Government of Guinea has been looking into securing funding for the Kallo Integrated Delivery System ("KIDS") for US\$200,000,925 and a financial institution has come to the stage of agreeing on the terms requested by the Government of Guinea based on their acceptable economic framework for such projects. We continue to be in contact with the newly appointed Minister of Health and expect to finalize the health strategy and implementation schedules between the financial institution and the Government of Guinea in the next 6 months. Once this process is complete, it would trigger the release of Kallo's down payment for the project initiation and production. There is no assurance that the down payment will ever be made to us. There is no assurance funding will ever be secured or that any funds will ever be released to Kallo.

In anticipation of the start of the Supply Contract, Kallo has built a Clinical Command Centre and other infrastructure at its Head Office as well as hiring a team focused on building out the project and delivery plan for the Contract.

MobileCare™ supply contract includes:

1. Mobile clinics - (10)
2. Clinical Command Centre - (1)
3. Administration Centre - (1)
4. Utility vehicles - (2)
5. User training - (5 years)
6. Professional and clinical training - (5 years)
7. Hardware and software maintenance - (5 years)
8. Operations & management support - (5 years)
9. Maintenance and continued educational support - (5 years)
10. Supply chain management of medical equipment, consumables and spare parts - (5 years)
11. Advanced and integrated software systems, including telehealth - (1 full system)
12. Fixed Medical Hospital - (1)
13. Ambulances - (20)
14. Medical Helicopter - (1)

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

1. Mobile Clinics (2)
2. Utility Vehicle (1)
3. Clinical, Pharmaceutical and Laboratory Equipment
4. Networking & Communications Infrastructure
5. Clinical Systems
6. 5-Year Service & Maintenance

7.5-Year Education & Training by Kallo University

8.Freight & Insurance

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On November 5, 2014, the Minister of Health of Ghana, Hon. Dr. Kwaku Agyeman Mensah in an official letter to Kallo Inc. conveyed a confirmed acceptance and prioritization of Kallo MobileCare; Kallo RuralCare and Kallo DialysisCare programs for Ghana.

During the first quarter of 2015, the office of the Minister of Finance – Ghana has been presented an offer to finance healthcare projects in Ghana valued at Euros 850 million. 250 million euros is to be utilized for a nation-wide malaria vector larviciding program, and the balance 600 million euros is for the Nation wide deployment of Kallo MobileCare, RuralCare and DialysisCare programs from Kallo Inc. The office of the Minister of Finance – Ghana is reviewing the offer and as of the date of this report, no further updates on financing were available.

The Ministry has identified project sites for this project as follows:

	Polyclinic Urban-Urban	Polyclinic Rural- Rural	Total	CHPS
Greater Accra	3	1	4	0
Ashanti Region	2	1	3	0
Central Region	2	1	3	2
Northern Region	2	2	4	2
Upper East Region	1	2	3	2
Upper West Region	0	0	0	1
Western Region	2	3	5	0
Volta Region	1	1	2	2
Eastern Region	1	1	2	0
Brong-Ahafo Region	1	0	1	1
	15	12	27	10

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

Plan of Operation

The following plan of operation contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth elsewhere in this document.

Kallo Integrated Delivery System

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

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

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

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

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

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

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

Our end to end delivery solution is equipped with necessary medical equipment as per regional healthcare requirements. We also install our copyrighted software and third party software as required along with a 5 year support agreement renewable after the 5 year initial term that includes the medical equipment, software licenses, installation implementation and training. This generates an ongoing revenue stream for service, maintenance, spare-parts, and consumables. As of the date hereof, we have not generated any revenues from our operations and there is no assurance we will generate any revenues in the future.

Sales Go-To-Market Strategy

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

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

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

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

Our milestones during the next twelve months are:

1. Develop our sales and marketing organization for the Component Solutions segment and expand the existing pipeline by building relationships with Government disaster recovery agencies as well as First Nations Leaders. We are utilizing existing resources to execute this strategy and will expand as operational financing permits.

2.

Perform a market analysis of the demand for individual components of the solution and targeted audience for each of the components. We are utilizing the expertise of existing resources to execute this strategy and will expand as operational financing permits.

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3. Continue to develop a pipeline of qualified opportunities for the full delivery solution with target to close and begin execution of the solution within the next 12 months.

Delivery Plan

Our plans for delivery of projects are unique to each opportunity but the core process can be emulated and specifics added based on the customers' requirements.

For a component delivery project such as our contract with Chrispod Limited for Ghana, the requirement is for the delivery of medical equipment, as well as other essential hospital equipment; beds, generators and elevator lifts. Of which only the generators and elevator lifts require installation services. With this solution, the delivery plan is focused around the coordination of manufacturer lead times, transportation offers and the management of importation and duties. Installation services are coordinated between the manufacturer and the Kallo engineering team. All of which are managed with detailed timeline reporting.

Our integrated healthcare delivery implementation plan for our full KIDS solution, such as for Guinea, begins with the detailed schedule for the delivery and training as agreed with the Government. We are currently developing a full 36 month roll out strategy for all aspects of the delivery, highlighting any risks and mitigation plans for those risks. Once the purchase order and payment are confirmed, the delivery plan includes a lead time of six months for production and landing of the first two mobile clinics.

In this period of six months from the date of purchase order confirmation to us the following will be completed for go live of the Healthcare Solution.

1. Establish geographical coverage for Mobile Clinics based on hospitals to population ratio in specific rural areas of Guinea
2. Establish the specialists support from teaching hospitals
3. Finalize all in country support contracts
4. Establish in country leadership for operational and administrative support
5. Establish governance councils for operations, education and training

Our healthcare delivery solution with mobile clinics, clinical and administrative command centers deployed in an integrated model with the current healthcare delivery services will produce demonstrable impact in the community in terms of improved healthcare delivery within 12 months of implementation that would contribute to the flagship achievement by the current government to its merit.

Our plan and focus during the next twelve months include the delivery of our proposed project with Chrispod Limited and the Government of Ghana, beginning the first phase of implementation of our KIDS solution in Guinea and building out our go to market strategy as described in the Go-To-Market Strategy section.

New Business Developments

Ghana – In addition to the sub-contract from Chrispod Limited provided on December 24, 2015 and the direct Memorandum of Understanding signed on November 20, 2012, we are actively perusing the following opportunity:

Currently in discussions with Minister of Health to determine scope of a direct add on to the Chrispod Limited contract for medical equipment expansion for existing healthcare facilities across Ghana. Request for proposal and decision is expected by end of May 2016.

Cameroon – From the proposal submitted on August 12, 2015, The Memorandum of Understanding process has been completed and approved by the Minister of Health and the Prime Minister's office. Next step would include a detailed analysis of the healthcare infrastructure currently in place. As part of the MOU, there is an immediate need for support of a sporting event taking place in Cameroon in late 2016.

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Chad – Two alternative proposals both submitted on August 16, 2015 for either 12 Mobile Clinics or 1 Rural clinic to the Minister of National Security. The proposals are currently in the review phase with the Government of Chad with a follow up meeting still to be determined.

There is no assurance any of the foregoing will materialize.

Results of operations

December 31, 2015 compared to December 31, 2014

Revenues

We did not generate any revenues during the year ended December 31, 2015 or 2014. We are pursuing numerous sales opportunities.

Expenses

During the year ended December 31, 2015 we incurred total expenses of \$8,964,960, including \$4,804,831 in salaries and compensation, \$76,457 in depreciation, \$1,483,909 in professional fees, \$230,165 in selling and marketing expenses, \$948,607 in interest and financing costs, \$97,890 gain in change in fair value on derivative liabilities, \$355,508 in fixed asset impairment and \$1,163,373 as other expenses. Our professional fees consist of legal, consulting, accounting and auditing fees.

During the year ended December 31, 2014 we incurred total expenses of \$4,209,038.

The increase in our expenses for the year ended December 31, 2015 was primarily due to an increase in salaries and compensation of \$3,532,151 including stock-based compensation of \$3,701,600 issued to management and employees, an increase in professional fees of \$751,046, an increase in interest and financing costs of \$902,729, an increase in other expenses of \$92,450, a decrease in selling and marketing expenses of \$15,962 and a decrease in the impairment charge of \$509,492. The increases are due to the increased hiring of full time employees and the consulting services to develop the work streams and project plan to execute on a major project as well as the financing charges to fund the business. The increase in professional fees is mainly due to the cost of consulting services for both development of the project plan and financing requirements.

Net Loss

During the year ended December 31, 2015 we incurred a net loss of \$8,964,960 compared to a net loss of \$4,209,038 in 2014.

Liquidity and capital resources

As at December 31, 2015, we had current assets of \$137,257, current liabilities of \$2,029,819 and a working capital deficiency of \$1,892,562. As of December 31, 2015, our total assets were \$293,435 in cash, prepaid expenses, deposit – long term, equipment and our total liabilities were \$2,054,370 comprised of \$1,204,942 in accounts payable and accrued liabilities, loans payable of \$15,730, derivative liabilities of \$210,834, deferred lease inducement of \$15,380 and convertible promissory notes of \$582,933.

Cash used in operating activities amounted to \$3,552,762 during fiscal 2015, primarily as a result of the net loss adjusted for non-cash items and various changes in operating assets and liabilities.

Cash used in investing activities of \$225,033 consisted of purchase of equipment.

Cash provided by financing activities during the year amounted to \$3,531,230 and represented mainly proceeds from sales of common stock of \$2,663,272 and proceeds from convertible promissory notes of \$921,498.

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Summary of critical accounting policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and in accordance with the instructions to Form 10-K related to smaller reporting companies as promulgated by the Securities and Exchange Commission.

Intangible Assets - Copyrights

Copyrights are stated at cost. According to the Canadian Intellectual Property laws in Canada, the life of a copyright is the author's life, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year. As a result, the useful life of the copyrights are determined to be indefinite are not amortized but 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, it was determined that the copyrights were impaired as at December 31, 2014 and fully reserved so no additional impairment as at December 31, 2015.

Impairment of Long-lived Assets

Long-lived assets comprise of equipment and copyrights. The Company accounts for impairment of long-lived 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 an event or circumstance that indicates the carrying value of the asset may not be recoverable. The Company follows the guidance of ASU 2012-02 and first assesses qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. 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 evaluated whether there are any adverse qualitative factors in respect to copyrights and equipment indicating that they might be impaired. Since there were indicators of impairment, Management reviewed its long-lived intangible assets and has determined that the Clinical Command Center and the Infrastructure were impaired as at December 31, 2015.

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).

Stock Issued in Exchange for Services

The valuation of the Company's common stock issued to non-employees in exchange for services is valued at an estimated fair market value as determined by Management 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 contractor's requisite service period (generally the vesting period of the equity grant).

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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of
Kallo Inc.
Markham, Ontario, Canada

We have audited the accompanying consolidated balance sheets of Kallo Inc. and its subsidiary (collectively the "Company") as of December 31, 2015 and 2014 and the related consolidated statements of operations, changes in stockholders' deficiency, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kallo Inc. and its subsidiary as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years 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 since inception and had an accumulated deficit of \$32,143,044 at December 31, 2015 that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MALONEBAILEY, LLP
Houston, Texas
April 14, 2016

KALLO INC.

Consolidated Balance Sheets

As at December 31, 2015 and 2014

(Amounts expressed in US dollars)

	2015	2014
ASSETS		
Current Assets:		
Cash	\$4,998	\$250,339
Other receivables	-	11,531
Deferred project costs	-	24,990
Prepaid expenses	132,259	122,022
Total Current Assets	137,257	408,882
Deposit – long term	20,627	49,220
Equipment, net	135,551	98,241
TOTAL ASSETS	\$293,435	\$556,343
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$1,204,942	\$924,494
Loans payable	-	56,112
Derivative liabilities	210,834	336,390
Convertible promissory notes net of discount of \$69,568 and \$248,825 respectively	204,826	16,175
Convertible loans payable – third parties	105,395	-
Short term loans payable	15,730	38,555
Convertible loans payable – related parties	272,712	-
Deferred lease inducement	15,380	35,181
Deferred revenue	-	24,990
Total Current Liabilities	2,029,819	1,431,897
Convertible promissory notes, net of discount \$59,939 and NIL respectively	24,551	
TOTAL LIABILITIES	2,054,370	1,431,897
Commitments and Contingencies		
Stockholders' Deficiency:		
Preferred stock, \$0.00001 par value, 100,000,000 shares authorized, 95,000,000 Series A preferred shares issued or outstanding	950	950
Common stock, \$0.00001 par value, 15,000,000,000 shares authorized, 5,648,390,746 and 382,156,160 shares issued and outstanding respectively.	56,485	3,822
Additional paid-in capital	30,324,674	22,297,758
Accumulated deficit	(32,143,044)	(23,178,084)
Total Stockholders' Deficiency	(1,760,935)	(875,554)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$293,435	\$556,343

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

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KALLO INC.

Consolidated Statements of Operations

(Amounts expressed in US dollars)

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Expenses		
General and administration	7,434,862	2,953,330
Selling and marketing	230,165	246,127
Foreign exchange (gain) loss	(66,093)	(53,827)
Depreciation	76,457	53,813
Interest and financing costs	948,607	45,878
Change in fair value on derivative liabilities	(97,890)	95,293
Impairment of copyrights / Assets	355,508	865,000
Loss on extinguishment of short term loan payable	83,344	3,424
	8,964,960	4,209,038
Net Loss and comprehensive loss	\$(8,964,960)	\$(4,209,038)
Loss per share - Basic and diluted net	\$(0.01)	\$(0.01)
Weighted average number of shares outstanding - Basic and diluted	966,447,335	348,742,260

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

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KALLO INC.

Consolidated Statements of Changes in Stockholders' Deficiency

(Amounts expressed in US dollars)

	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 31, 2013	-	\$ -	319,106,020	\$3,191	\$18,669,367	\$(18,969,046)	\$(296,488)
Issuance of common shares – Kodiak put	-	-	8,472,223	85	481,498	-	481,583
Shares issued to directors, employees and others for services	95,000,000	950	7,560,000	76	721,904	-	722,930
Settlement of short term loans payable by common shares	-	-	680,000	7	27,193	-	27,200
Issuance of common shares for cash	-	-	45,637,917	456	2,281,439	-	2,281,895
Shares issued and issuable for consulting fees	-	-	700,000	7	116,357	-	116,364
Net Loss	-	-	-	-	-	(4,209,038)	(4,209,038)
Balance December 31, 2014	95,000,000	950	382,156,160	3,822	22,297,758	(23,178,084)	(875,554)
Issuance of common shares – Kodiak put	-	-	6,250,000	63	172,120	-	172,183
Shares issued to directors and employees	-	-	2,989,800,000	29,898	3,671,702	-	3,701,600
Shares issued for debt conversion	-	-	2,196,251,125	21,963	1,290,955	-	1,312,918
Issuance of common shares for cash	-	-	68,867,121	689	2,490,400	-	2,491,089
Shares issued for consulting services	-	-	3,508,500	35	230,392	-	230,427
Stock issued for settlement of Payables	-	-	1,557,840	15	171,347	-	171,362
Net Loss	-	-	-	-	-	(8,964,960)	(8,964,960)
Balance December 31, 2015	95,000,000	\$ 950	5,648,390,746	\$56,485	\$30,324,674	\$(32,143,044)	\$(1,760,935)

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

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KALLO INC.

Consolidated Statements of Cash Flows

(Amounts expressed in US dollars)

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(8,964,960)	\$(4,209,038)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	76,457	53,813
Stock-based compensation	3,701,600	722,930
Impairment of copyrights / assets	355,508	865,000
Debt forgiveness	-	(31,514)
Loss on extinguishment of short term loan payable and accounts payable	83,344	3,424
Amortization of debt discount	780,364	16,175
Deferred lease inducement	(19,801)	35,181
Change in fair value on derivative liabilities	(97,890)	95,293
Interest and penalties on promissory notes	128,397	-
Unrealized foreign exchange gains	(60,981)	(41,927)
Non-cash consulting fees	230,427	116,364
Changes in operating assets and liabilities:		
Decrease (Increase) in other receivables	11,531	745
Decrease (Increase) in deferred project cost	24,990	(24,990)
Decrease (Increase) in prepaid expenses and deposits	18,357	(145,846)
(Decrease) in deferred revenue	(24,990)	-
Increase (Decrease) in accounts payable and accrued liabilities	204,885	(182,045)
NET CASH USED IN OPERATING ACTIVITIES	(3,552,762)	(2,726,435)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(225,033)	(39,591)
CASH USED IN BY INVESTING ACTIVITIES	(225,033)	(39,591)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	2,663,272	2,753,918
Proceeds from short term loans payable	-	-
Proceeds from convertible promissory notes	580,075	241,097
Proceeds from other convertible notes (\$272,712 from related parties)	341,423	-
Repayment of loans payable	(53,540)	-
CASH PROVIDED BY FINANCING ACTIVITIES	3,531,230	2,995,015
Effect of exchange rate changes on cash	1,224	(6,098)
NET (DECREASE) INCREASE IN CASH	(245,341)	222,891
CASH		
Beginning of period	250,339	27,448
End of period	\$4,998	\$250,339

SUPPLEMENTAL CASH FLOW INFORMATION:

Income Tax paid	\$-	\$-
Interest paid	\$-	\$27,477
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Conversion of loans payable into common shares	\$-	\$27,200
Note issued for settlement of Accounts Payable	\$18,610	\$-
Short term loan transferred to convertible note	\$22,977	\$-
Accounts payable for equipment	\$244,243	\$64,490
Initial debt discount on convertible promissory notes	\$607,510	\$241,096
Stock issued for settlement of accounts payable	\$171,362	\$-
Conversion of promissory notes into common shares	\$1,312,918	\$-

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

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 1 - BUSINESS AND GOING CONCERN

Organization

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

Going Concern

The accompanying 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 \$32,143,044 at December 31, 2015. The Company is expected to incur additional losses as it executes its go to market strategy.

The Company has met its historical working capital requirements from the sale of common shares and related party loans. In order to not burden the Company, the officer/stockholder has agreed to provide funding to the Company to pay its annual audit fees, filing costs and legal fees as long as the board of directors deems it necessary. However, there can be no assurance that such financial support shall be ongoing or available on terms or conditions acceptable to the Company. 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.

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and in accordance with the instructions to Form 10-K related to smaller reporting companies as promulgated by the Securities and Exchange Commission.

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.

Cash

Cash includes cash on hand and highly liquid investments with a maturity of three months or less at acquisition.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS (continued)

Earnings 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 reflects the potential dilution of securities that could share in earnings of an entity. In a loss year, dilutive common equivalent shares are excluded from the loss per share calculation as the effect would be anti-dilutive. For the years ended December 31, 2015 and 2014, basic and diluted losses per share are the same for both years.

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, valuation of financial instruments, useful life of equipment, impairment of long lived assets, measurement of non-monetary transactions and provision for penalties and interest on estimated payroll tax liabilities.

Equipment

Equipment comprise computer equipment, software, office furniture and equipment and leasehold improvement and are stated at cost less accumulated depreciation. The cost of the equipment is depreciated using the straight-line method over the estimated useful life of the related assets of between 1 - 5 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.

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 as of yet.

Deposit – long term

Deposit – long term represents prepayments of rent due at the end of our new office lease.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Related party transactions

FASB ASC 850, "Related Party Disclosures" requires companies to include in their financial statements disclosures of material related party transactions. The Company discloses all material related party transactions. Related parties are defined to include any principal owner, director or executive officer of the Company and any immediate family members of a principal owner, director or executive officer.

Intangible Assets - Copyrights

Copyrights are stated at cost. According to the Canadian Intellectual Property laws in Canada, the life of a copyright is the author's life, the remainder of the calendar year in which the author dies, and a period of 50 years following the end of that calendar year. As a result, the useful life of the copyrights are determined to be indefinite are not amortized but 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, it was determined that the copyrights were impaired as at December 31, 2014 and fully reserved with no additional impairment on December 31, 2015.

Impairment of Long-lived Assets

Long-lived assets comprise of equipment and copyrights. The Company accounts for impairment of long-lived 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 an event or circumstance that indicates the carrying value of the asset may not be recoverable. The Company follows the guidance of ASU 2012-02 and first assesses qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. 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 evaluated whether there are any adverse qualitative factors in respect to copyrights and equipment indicating that they might be impaired. Since there were indicators of impairment, Management reviewed its long-lived intangible assets and has determined that the copyrights were impaired as at December 31, 2014 and Clinical Command Center and Infrastructure fixed assets were impaired on December 31, 2015.

Research and Development

The Company accounts for research and development costs in accordance with ASC 730-10, Research and Development. Accordingly, all research and development costs are charged to expense as incurred as software development costs.

KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar. Transaction 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.

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.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which a change in judgement occurs, as a result of information that arises or when a tax position is effectively settled. Interest and penalties related to income tax matters are recognized in general and administrative expense.

In accordance with the statute of limitations for federal tax returns, the Company's federal tax returns for the years 2011 through 2014 are subject to examination. The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of FASB ASC 740.

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).

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 – ACCOUNTING POLICIES AND OPERATIONS (continued)

Fair Value of Financial Instruments (continued)

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 following is a summary of our financial instruments that are accounted for at fair value by level within the fair value hierarchy at December 31, 2015 and 2014:

December 31, 2015

	Level 1	Level 2	Level 3	Total
Liabilities:				
Derivative liability	\$ -	\$ -	\$210,834	\$210,834

December 31, 2014

	Level 1	Level 2	Level 3	Total
Liabilities:				
Derivative liabilities	\$ -	\$ -	\$336,390	\$336,390

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).

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS (continued)

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. Legal defense costs are accrued as incurred. See Note 12.

Stock Issued in Exchange for Services

In accordance with ASC 505, the valuation of the Company's common stock issued to non-employees in exchange for services is valued at an estimated fair market value as determined by Management 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 contractor's requisite service period (generally the vesting period of the equity grant).

Convertible promissory note

The Company accounts for conversion options embedded in convertible notes in accordance with ASC 815. ASC 815 generally requires companies to bifurcate conversion options embedded in convertible notes from their host instruments and to account for them as free standing derivative financial instruments if they do not meet the criteria for classification in stockholders' equity.

The Company has evaluated the terms and conditions of its convertible notes under the guidance of ASC 815. The conversion feature did not meet the definition of "indexed to a company's own stock" provided for in ASC 815. Therefore, the conversion features require bifurcation and liability classification. The Company recorded the conversion feature as a derivative liability and debt discount and is amortized over the life of the convertible note. The debt discount is recorded against the related convertible note outstanding. The amortization is recorded as interest expense. The derivative liabilities are re-valued at the end of each reporting period using the lattice Model, with changes in the fair value of the derivative liability recorded as charges or credits to income, in the period in which the changes occur.

Non-monetary transactions

The Company applies ASC 845, "Accounting for Non-Monetary Transactions", to account for services received through non-cash transactions based on the fair values of the services involved, where such values can be determined. If fair value of the services received cannot be determined, then the fair value of the shares given as consideration is used.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 2 - ACCOUNTING POLICIES AND OPERATIONS (continued)

Revenue recognition

Revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery or performance has occurred; the sales price is fixed or determinable; and collection is reasonably assured.

Professional service revenue primarily consists of the fees the Company earns related to installation and consulting services. The Company recognizes revenue from professional services upon delivery or completion of performance.

Training services are recognized upon delivery of the training.

Deferred revenue

Deferred revenue represents amounts invoiced to customers for which the related revenue has not been recognized because one or more of the revenue recognition criteria have not been met. The current portion of the deferred revenue represents the amount that is expected to be recognized as revenue within one year of the consolidated balance sheet date.

Lease accounting

The Company evaluates each lease for classification as either a capital lease or an operating lease. If substantially all of the benefits and risks of ownership have been transferred to the Company as lessee, the Company records the lease as a capital lease at its inception. The Company performs this evaluation at the inception of the lease and when a modification is made to a lease. If the lease agreement calls for a scheduled rent increase during the lease term, the Company recognizes the lease expense on a straight-line basis over the lease term.

The Company determines the straight-line rent expense impact of an operating lease upon inception of the lease.

Advertising costs

The Company expenses advertising costs as incurred. The total costs the Company recognized related to advertising were approximately \$56,014 and \$27,868, during the years ended December 31, 2015 and 2014, respectively.

Recently Adopted Accounting Pronouncements

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

KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 3 – CAPITAL STOCK

Common Stock

On September 26, 2012, the Company entered into a investment agreement with Kodiak Capital Group, LLC ("Kodiak") whereby the company could issue shares in exchange for an option to sell up to \$2,000,000 worth of shares of the Company at a price equal to eighty percent (80%) of the lowest daily preceding five days Volume Weighted Average Price at the time of exercise and expires six months from inception. In connection therewith, the Company filed a Form S-1 registration statement with the Securities and Exchange Commission registering for sale up to 50,000,000 common shares. The previous arrangement with Kodiak expired in April 2014, but on July 15, 2014, the Company and Kodiak amended the investment agreement to extend the agreement through December 31, 2015. During the year ended December 31, 2015, the Company put \$172,183 and 6,250,000 shares were issued compared to the year ended December 31, 2014, the Company put \$481,583 and 8,472,223 shares were issued pursuant to the above Agreement. The agreement expired on December 31, 2015 with no additional extension.

On June 27, 2011, Kallo registered 10,000,000 shares under a 2011 Non-Qualified Stock Option Plan to be offered and sold to accounts of eligible persons of the Company under the Plan at a proposed maximum offering price per share of \$0.15. This 2011 Plan is for persons employed or associated with the Company, including without limitation any employee, director, general partner, officer, attorney, accountant, consultant or advisor, is intended to advance the best interests of the Company by providing additional incentive to those persons who have a substantial responsibility for its management, affairs, and growth by increasing their proprietary interest in the success of the Company, thereby encouraging them to maintain their relationships with the Company. As at December 31, 2015, 7,233,334 shares have been issued under this 2011 Non-Qualified Stock Option Plan with no additional shares issued in 2015 under this plan.

On September 6, 2012, Kallo registered 50,000,000 shares under a 2012 Non-Qualified Stock Option Plan to be offered and sold to accounts of eligible persons of the Company under the Plan at a proposed maximum offering price per share of \$0.04. This 2012 Plan is for persons employed or associated with the Company, including without limitation any employee, director, general partner, officer, attorney, accountant, consultant or advisor, is intended to advance the best interests of the Company by providing additional incentive to those persons who have a substantial responsibility for its management, affairs, and growth by increasing their proprietary interest in the success of the Company, thereby encouraging them to maintain their relationships with the Company. As at December 31, 2015, no shares have been issued under this 2012 Non-Qualified Stock Option Plan.

During 2014, the holder of a promissory note converted the principal and interest outstanding of \$23,776 into 680,000 shares. The fair value of the stock issued was \$27,200 and therefore the Company experienced a loss on extinguishment of \$3,424. The Company also issued 7,560,000 shares valued at \$434,150 to various employees and directors as compensation for services rendered and 700,000 shares valued at \$116,364 to consultants for services rendered. During the year ended December 31, 2014, the Company issued 45,637,917 shares for cash of \$2,281,895.

During 2015, the holders of promissory notes converted the principal and the related interest outstanding of \$677,742 into 2,196,251,125 shares. The fair value of the derivative liability associated with the notes that were converted, \$635,176 was reclassified to equity upon conversion. Therefore the Company recorded \$1,312,918 in conjunction with the conversions. The Company also issued 2,989,800,000 shares valued at \$3,701,600 to various employees and directors as compensation for services rendered. During the year ended December 31, 2015, the Company issued

68,867,121 shares for cash of \$2,491,089.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 3 – CAPITAL STOCK (continued)

During 2015, the Company issued 3,508,500 shares in consideration of \$230,427 of consulting services related to fund raising activities. Also, the Company issued 1,557,840 shares in consideration of \$171,362 as repayment for open Accounts Payables related to design development of mobile trailers and recorded a loss on extinguishment as the value of the stock exceeded the balance due on invoice at the time of issuance.

Preferred Stock

During 2014, the Company has designated 95,000,000 of its preferred stock as Series A Preferred Stock, each of which has 100 votes. The Company, will not, without the affirmative vote or written consent of the holders of at least a majority of the outstanding Series A Preferred Stock (i) authorize or create any additional series of stock ranking prior to or on a parity with the Series A Preferred Stock as to dividends, voting rights, or the distribution of assets upon liquidation; or (ii) change any of the rights, privileges or preferences of the Series A Preferred Stock.

The Company issued 95,000,000 Series A Preferred shares to several directors as compensation for services rendered during 2014. The shares of Series A Preferred stock are not convertible, carry voting rights of 100 votes per Preferred share and the fair value of the Preferred shares were deemed to be \$288,780 based on the voting rights of the Preferred shares relative to the fair value of the Company at the date of the issuance.

During 2015, the Company did not issue any Preferred Class shares.

NOTE 4 – WARRANTS

Warrant activity during 2015 and 2014 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2013	1,580,000	\$ 0.50
Granted	-	-
Expired	(1,580,000)	-
Balance, December 31, 2014	-	\$ -
Granted	-	-
Balance, December 31, 2015	-	\$ -

Each warrant was exercisable for a period of one year from the effective date of a registration statement filed with the SEC. Such registration statement was declared effective on October 9, 2013 and the warrants expired unexercised in 2014.

KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 5 – RELATED PARTY TRANSACTIONS

During 2015, 2,662,500,000 shares were issued to directors of the Company as stock-based compensation and were valued, using the market closing price on the date of the grant, at \$3,630,000. In addition, 6,470,914 shares were issued to a director of the Company for cash of \$323,546 and 55,104,172 shares were issued to an affiliate for cash of \$1,938,282.

During 2014, 6,000,000 common shares were issued to directors of the Company as stock-based compensation and were valued, using the market closing price on the date of the grant, at \$350,000. Also during 2014, 95,000,000 Series A Preferred Stock were issued to directors of the Company as stock-based compensation and were valued at \$288,780 based on the voting rights of the Preferred shares relative to the fair value of the Company at the date of the issuance. In addition, 6,304,633 shares were issued to a director of the Company for cash of \$315,232.

Included in convertible note payable is an amount due to a director of the Company for the amount of \$138,069 (2014 - NIL) and an amount due to an affiliate of the company for the amount of \$134,643 (2014 – NIL).

Included in accounts payable and accrued liabilities is an amount of \$7,873 (2014 - \$15,714) due to directors and officers of the Company as at December 31, 2015.

NOTE 6 – EQUIPMENT

	2015	2014
Computer equipment under capital lease	\$223,683	\$223,683
Nexus computer equipment under capital lease	42,023	42,023
Computer equipment	50,724	39,338
Computer software	37,210	9,577
Hardware & Installation	10,128	-
Office furniture and equipment	27,739	24,796
Leasehold improvement	55,072	30,370
Medical Equipment	13,274	-
Clinical Command Center	15,790	-
Infrastructure	7,911	-
Total Equipment	483,554	369,787
Less accumulated depreciation	(348,003)	(271,546)
Equipment – net	\$135,551	\$98,241

Depreciation expense during 2015 and 2014 were \$76,457 and \$53,813 respectively.

Impairment on fixed assets during 2015 and 2014 were \$355,508 and \$865,000 respectively as described in detail under Impairment of Long-lived Assets in Note 2.

KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 7 – COPYRIGHTS

On December 11, 2009, the Company acquired 100% 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.

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. All three projects are included in the integrated solution in the MobileCare and RuralCare projects being proposed under the Ghana Project and Guinea Project mentioned in Note 12 and hence the total amount of \$700,000 will be due and payable upon closing of either the Ghana Project or Guinea Project. The 3,000,000 shares were considered issued as at the closing date of the acquisition and valued based on discounted market price per share at the date of 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 copyrights relate to the following technologies: "EMR Integration Engine" to provide integrated solutions for interoperability within the continuum of care, "C&ID-IMS", an Internet-based solution for monitoring and managing Communicable and Infectious Disease information, "CCG", a clinical-care globalization technology and "MC-Telehealth", a mobile clinic long distance with Telehealth technology. 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. According to the Canadian Intellectual Property laws, the life of a copyright is the author's life plus fifty years. As a result, the useful life of the copyrights are determined to be indefinite are not amortized but subject to testing for impairment. The Company continues to develop these technologies for use in a diverse range of potential products and expect to make use of them in future Projects. The Company reviews the value of the copyrights on an annual basis to determine if the value has been impaired. Based on Management's estimation of future profits and as the Company has not generated any revenues from the copyrights yet, it was determined that the copyrights were impaired as at December 31, 2014 and fully reserved at that point.

NOTE 8 – LOAN PAYABLE

As at December 31, 2014, a loan payable of \$56,112 to an unrelated party bears interest at 6% per annum, is unsecured and is payable in monthly installments of principal and interest in the amount of Canadian \$7,233.

As at December 31, 2015, loan payable is NIL.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 9 – CONVERTIBLE PROMISSORY NOTES AND DERIVATIVE LIABILITIES

The convertible promissory notes are unsecured and bear interest at between 8% and 12% per annum with all principal and accrued interest due and payable between one and two years from the dates of execution of the Notes. The Notes are due and were issued as disclosed in the following table. The Holders of the Notes can, in lieu of payment of the principal and interest, elect to convert such amount into common shares of the Company at the conversion price per share disclosed. The following table represents the remaining notes outstanding as of December 31, 2015.

Original Face amount	Interest rate	Due date	Conversion price per share
Promissory note of \$125,000	8%	December 1, 2015	75% of average of the previous two lowest trading days over the last 15 trading days
Promissory note of \$100,000	10%	December 21, 2015	65% of lowest trading day over the last 15 trading days
Promissory note of \$50,000	8%	October 5, 2015	60% of the lowest trading price over the last 15 trading days
Promissory note of \$87,500	8%	January 15, 2016	70% of average of two lowest closing bid price over the last 15 trading days
Promissory note of \$60,000	12%	February 3, 2017	60% of the lowest trading price over the last 25 trading days
Promissory note of \$50,000	12%	February 3, 2017	65% of the lowest trading price over the last 25 trading days
Promissory note of \$55,000	8%	July 9, 2017	65% of the lowest trading price over the last 20 trading days
Promissory note of \$55,000	8%	February 5, 2016	60% of the lowest trading price over the last 15 trading days
Promissory note of \$40,000	8%	July 13, 2016	60% of the lowest trading price over the last 15 trading days

A summary of the promissory notes is as follows:

	2015	2014
Balance as at Beginning of Period	\$ 16,175	\$-
New convertible promissory notes	633,611	265,000
Original issue discount	(53,536)	(23,904)
Penalties	114,914	-
Derivative liabilities	(607,510)	(241,096)
Converted into shares	(654,641)	-
Amortization of debt discount	780,364	16,175
Balance as at end of period	229,377	16,175
Convertible notes – short term	(204,826)	(16,175)
Convertible notes – long term	\$ 24,551	\$-

The future principal maturities are due \$266,104 in 2016 and \$93,100 in 2017.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 9 – CONVERTIBLE PROMISSORY NOTES AND DERIVATIVE LIABILITIES (continued)

The company analyzed the conversion option for derivative accounting consideration under ASC Topic 815-40, Derivatives and Hedging – Contract in Entity's Own Stock and concluded that the conversion option does not meet the criteria for classification in stockholders' equity. Therefore, derivative accounting is applicable for the conversion option.

During the year ended December 31, 2015, at the commitment dates, the initial fair values of the embedded conversion feature for the new convertible promissory notes were estimated at \$1,034,346 and recorded as derivative liabilities, resulting in a Day 1 loss of \$426,836. During the year, there were conversions and mark to market adjustments as summarized in the table below. The original issue discount for the new convertible promissory notes was \$53,536 and \$607,510 was allocated to the embedded derivative liabilities. The debt discounts are amortized over the terms of the respective Notes. The fair value of the embedded conversion feature is estimated at the end of each quarterly reporting period using the Multinomial lattice model, which uses a probability weighted discounted cash flow model. The Model requires assumptions related to the interest rate, stock price and conversion price that would be in effect in different scenarios, for which cash flow projections and probabilities are made. A discounted weighted average cash flow over the various scenarios was completed, and compared to the discounted cash flow of the note without the embedded features, to arrive at the derivative liability.

The key assumptions for the valuation of the derivative liability are as follows:

• The notes convert with an initial conversion price of 55%-75% of the average or low of the close or bid prices over the 15-15 previous days.

• The projected annual volatility curve for each valuation period was based on the historical annual volatility of the company in the range 238% - 278%.

• The holder would automatically convert the note at the maximum of 2 times the conversion price.

• Full Reset events are projected to occur quarterly generating a projected conversion prices at 125% of market.

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

	2015	2014
Fair value as at beginning of period	\$336,390	\$-
New promissory notes	607,510	386,187
Elimination associated with conversion of promissory notes	(635,176)	-
Change in fair value (gain)	(97,890)	(49,797)
Fair value as at end of period	\$210,834	\$336,390

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 10 – SHORT TERM LOANS PAYABLE AND CONVERTIBLE LOANS PAYABLE

	2015	2014
Promissory note bearing interest at 10% per annum, due Nov. 15, 2015	\$-	\$25,020
Convertible promissory note bearing interest at 15% per annum –third party	105,395	-
Convertible promissory note bearing interest at 15% per annum – Related Party	272,712	-
Non-interest bearing short term funding from third parties	15,730	13,535
	\$393,837	\$38,555

During the fourth quarter of 2015, the Company provided a debt offering as opposed to equity financing. The offering includes 15% interest per annum and is convertible at a fixed price at any time during the 1 year term. The company has the option to pay the note at any time. The company analyzed the conversion option for derivative accounting consideration under ASC Topic 815-40, Derivatives and Hedging – Contract in Entity's Own Stock and concluded that the embedded conversion feature was zero. The total outstanding notes from this debt offering is \$378,107 of which accrued interest of \$8,439 was added to the balance as of December 31, 2015.

On October 15, 2013, the Company issued a promissory note agreeing to pay the principal amount of Canadian \$25,000 plus interest at the rate of 10% per annum on January 15, 2014. The amount outstanding at December 31, 2014 was \$25,020 US. Kallo did not pay on the due date and the holder agreed to extend the due date by seven additional periods of three months up to November 15, 2015. On November 10, 2015, the holder agreed to convert the principal amount and accrued interest of \$5,041 into a new debt offering of 15% interest for a 12 month term maturing on November 10, 2016.

On December 18, 2015, the Company issued a promissory note for \$18,610 for settlement of a vendor accounts payable.

As at December 31, 2015, the balance of \$15,730 (2014 - \$13,535) represented short term funding provided by third parties which are non-interest bearing, unsecured and have no fixed repayment date.

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KALLO INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts expressed in US dollars)

NOTE 11 – INCOME TAXES

The Company had no income taxes payable at December 31, 2015 and 2014.

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

	2015		2014	
Net loss for the year	\$(8,964,960)		\$(4,209,038)	
Effective statutory rate	34	%	34	%
Expected tax recovery	\$(3,048,086)		\$(1,431,073)	
Net effects of non deductible and allowable items	1,742,542		29,697	
Change in valuation allowance	1,305,544		1,401,376	