

# Corporate Update

December 19, 2007 - Issue 103

Dear Shareholder,

We are pleased to issue this our third Corporate Update designed to keep our Shareholders abreast of developments within the Company.

All Corporate Updates will be announced via a news release and the actual Corporate Update will be placed on Kelso's website in the "News" section at [www.kelsotech.com](http://www.kelsotech.com). We look forward to your comments and suggestions for content.

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## **Sales and Customer Developments**

Since the appointment of Neil E. Gambow to head up the sales & marketing and operations of Kelso's North American rail sector, there has been a great deal of effort expended. In planning for what we hope to be Kelso's best year yet - 2008. Management has been setting the groundwork with its existing and potential customer base in preparation for the new year.

In late 2007 we have had a number of meetings with existing customers and brought them up-to-date with our latest corporate changes and initiatives. We have also made good strides in speaking to new customers to ensure that they are fully aware of the Kelso technology and the benefits of Kelso's products. Along with this, we have been educating our customers on how the valves will fit with their existing service, replacement and new car build programs. Since Kelso's valves are still relatively new to the rail industry, many rail personnel have still not had first-hand exposure to their many benefits. Kelso has held and continues to hold technical presentations whenever possible,

The appointment of Neil Gambow was strategically "geographically" beneficial as he is based in Chicago, one of the major North America rail centres. With Barry LaCroix, our Ontario-based VP, Engineering geographically close to the Chicago area, we have been able to rapidly access potential customers that we were unable to address prior. It was important to the Board to have this ability and in turn was just one of the reasons that made Gambow a natural fit.

The acceptance of Kelso's "new look" has been rewarding. As a result of information gathering through discussions with our customers as well as with end users and manufacturers of our technology, we are in the process of developing a revised forecasting of what we believe will constitute sales over the next two years.

Most exciting however, is that we have now been able to identify new buyers. This has expanded our expectations and while the sales cycle in this business is very long as a

result of the logistical issues given that the product is rolling around all over North America, we are very encouraged. The additional manpower and contacts that Neil Gambow brings to the task has already started to facilitate an accelerated pace of activity leading to future sales.

## ***Fundraising Update***

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Critical to Kelso's success at this juncture is its financial state. The Company, as a result of recent developments including the addition of Neil Gambow to the Team, has attracted the interest of four Corporate Finance groups, two Canada, two in the US and another in the U.K.

At this juncture, Kelso's Board is working to solidify specific terms and conditions with them and would look to make final decisions in the coming weeks. At the appropriate time, we will announce these developments via News Release.

Renewed interest in Kelso from groups that have been watching its evolution from a distance is now beginning to evolve. The slow pace at which sales have moved over the past two years has been a direct result of the rail industries acceptance of new products and a changing of direction as a result of legislation and product developments, one such example being the impact of the burgeoning Ethanol marketplace.

Kelso has, as a result of very dedicated shareholders who have supported the Company through participation in private placements, and market support through the purchase of more shares when the stock price has fluctuated downward, managed to sustain itself and is now looking upward. This has spawned the renewed interest that is leading to the new financial support opportunities that we are gaining.

Management continues to judiciously manage the expenditures of the company and will continue to do so. This will allow Kelso to continue with its concerted efforts in moving forward in a financially fiscal way. Along with this will be the continued efforts in trying to reduce the corporate debt and the debt of stakeholders that have been supporting the company.

Public company costs continue to be a burden however and with the recent changes in the required reporting requirements as set by the Securities Commissions and stock exchanges, Kelso had to sever the relationship between accounting and auditing. No longer can the accountant be the auditor. The unfortunate result of this is the effective doubling of the fees associated with these services which then has a trickle-down effect to the legal and administrative duties and costs of the Company, not to mention the added time involved throughout this process.

Kelso has however, made this transition successfully despite the fact that the costs and timing have been prohibitive. In December 2006, the Company applied for and was granted a cease trade order for its Insiders while the new auditors undertook their audit. The deadline for audit completion is December 31<sup>st</sup> this year and the auditing firm engaged by Kelso were unable to begin Kelso's 2007 audit prior to this holiday season as a result of the Company not being able to provide the requisite capital in sufficient time. Therefore, it will be undertaken in January.

## ***Warrants Expiring***

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Many shareholders have Warrants which are to be exercised by January 11, 2008. Should you be one of the Warrant holders, you are advised to contact John Carswell at Kelso during the week of January 7, 2008 to ensure that you have completed the necessary requirements so they don't expire. Please review your files and confirm whether you have Warrants expiring or not.

Should you have Warrants, we urge you to exercise them. This has proven to be a very successful way for the Company to finance itself and it is always easier to have the existing shareholders support the company, rather than bringing in investors that may not have the same motivations as our existing supporters.

Given our expectation with the various Corporate Finance groups we have been dealing with, we anticipate that the share price will be readily supported in the new year.

Kelso's Board and Management appreciate the ongoing support shown by shareholders who have financed the Company's growth to this point. We look forward to pursuing an aggressive tact in the new year, thereby increasing turnover, financing and most of all – shareholder value.

## ***Conclusion***

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Once again we hope that you have found this update informative. Should any of our shareholders have any questions or concerns, please don't hesitate to contact us on or after January 7, 2008.

Please note that Kelso's offices will be closed over the Christmas and New Year's holiday as staff will be taking vacation days to coincide with the statutory holidays. In an emergency, staff can be reached promptly via email to [admin@keslotech.com](mailto:admin@keslotech.com).

There are many aspects of Kelso business that are moving quickly now as we have gained some good momentum as a result of the last years activities and we look forward to all your support, however it may come in.

***From all of us at Kelso, Happy Holidays and a very joyous 2008!***

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this Release. The information in this news release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this release, words such as "estimate", "expect", "anticipate" and "believe" as well as similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects, and goals for the Company and therefore involve inherent risks and uncertainties. The reader is cautioned that actual results, performance or achievements may be materially different from those implied or expressed in such statements, which speak only as of the date the statements were made. The Company does not update forward-looking statements continually as conditions change. We seek safe harbor.