



May 1, 2008

President's Letter to Shareholders

Dear Shareholder,

This year, in preparation for our Annual General Meeting in Vancouver (May 27th at 2 pm PDT), I have chosen to provide shareholders with both a glimpse back on the achievements made since I began as President & CEO in August 2005, as well as an overview of the market and opportunity that lies at our doorstep.

I am also delighted to inform you that Neil E. Gambow, President of Kelso Technologies (U.S.A.) Inc, Kelso's wholly-owned US subsidiary, will attend our 2007 AGM and following the formal portion of a meeting, will make a presentation to Shareholders.

As a longtime shareholder myself, I was very pleased that we were able to hire Neil to lead our sales and marketing efforts as well as R&D/Product Development. His many years of experience, hands-on as President of Midland Manufacturing, coupled with his expert knowledge of the rail sector and wide range of senior level industry contacts have enabled Kelso to cut years off of the time it would have taken to grow the Company.

Our opportunity has never looked brighter than now. We have already added significant new customers to our stable, increased the range and type of products we offer, refashioned Kelso into a "**customer-driven, product solutions**" company and through Neil's expert efforts, have developed a new reputation for Kelso, that of an innovator in the rail sector.

Each customer that starts by buying a small quantity of our products is basically opening its doors to much larger, future and ongoing purchases. This is one of the keys to growing our revenues and our market.

We hope you can attend this year's AGM and welcome you to invite your friends, family, colleagues, business associates and stock brokers.

Please confirm your attendance by email to admin@kelsotech.com or by leaving a message at 604.878.7600 ext #1. Your responses will enable us to plan appropriately to accommodate all attendees.

Sincerely,

John L. Carswell

John L. Carswell
President & CEO
Kelso Technologies Inc.

Kelso Technologies Inc. Report Card A Chronology of Developments Starting August 2005

With a view to encapsulating the many accomplishments made by Kelso Technologies since the change in Management with my appointment as President & CEO, we have compiled the following summary of actions, by date. This compilation will assist our shareholders in better understanding the accomplishments made as well as the groundwork that has been laid for future growth and expansion of the Company, both in terms of sales revenue and also in terms of Global reach.

Respectfully submitted,
John L. Carswell, President & CEO

Date	Action	Time to Complete
August 2, 2005	Carswell Appointed as President & CEO of Kelso Technologies with Self-elected Mandate to accelerate R&D/Product Development and Increase Sales Revenue	n/a
August 30, 2005	First ever sale of its JS75 SRV pressure relief valve to a major US Chemical Manufacturer and Fleet Operator	6 months
September 12, 2005	For the first time in Kelso's history, the Company showed sales revenues on its first quarter statement for the three months ending November 30, 2005	12 months
October 4, 2005	Kelso granted a twenty year patent in Mexico for its "Tank Transport Pressure Relief Valve" expiring in 2019	8 months
November 10, 2005	Discussions with parties based in UK & India with regard to financing needs and joint ventures to serve European and Asian rail and petrochemical markets	10 months
November 22, 2005	New director William Troy appointed	4 months
January 17, 2006	Private Placement (PP) for \$137,438 closes	3 months
February 1, 2006	Rescar Industries Inc., the largest rolling stock maintenance provider in NA, places its 2nd order	5 months
February 13, 2006	More than 100 JS75S pressure relief valves committed for install on new tank cars being built by one of the three largest tank car manufacturers in NA	5 months
May 19, 2006	Completely new website launched	4 months
May 23, 2006	First ever Low Flow PRV debuts at Bureau of Explosives	4 months
May 31, 2006	PP increased to \$375,000	6 months
August 1, 2006	Kelso's announces that gross profits increased by 340% over the prior quarter	12 months
September 13, 2006	Fifty percent of large valve order delivered for new car build	5 months

September 19, 2006	South Korean Patent Announced	36 months
November 1, 2006	Chairman Steps Aside	10 months
November 2, 2006	Interim US President appointed	2 months
November 6, 2006	New Director Andrew R. Male appointed	3 months
January 24, 2007	PP increased to \$475,000	5 months
February 1, 2007	Kelso participates in four day Financial Forum and Trade Show in Toronto and holds several meetings city's financial community to discuss the ongoing development of the Company and its efforts to secure long term funding	6 months
March 21, 2007	Virginia Sealing Products signs Memorandum of Understanding to become Kelso's first Marketing Partner	8 months
March 26, 2007	Renowned Sealant Expert James E. Frew appointed Chair of Rail Advisory Board	4 months
April 9, 2007	Kelso Retains High Profile, UK-based Legal Counsel Brown Rudnick (American Railcar's Chief Counsel) to assist with international expansion	5 months
April 11, 2007	Interbank agreement signed to provide future funding for international growth & expansion	5 months
April 16, 2007	First meetings held in Houston, Texas with the Transportation Products Group of Piping & Equipment, Inc. to discuss terms of a working relationship	7 months
May 18, 2007	Regulatory approval obtained from the Association of American Railroads' ("AAR") Tank Car Committee for two new Low Flow PRVs: the JS75L & the JS165L	8 months
July 30, 2007	Kelso bids on a two year contract order valued at over \$600,000 USD for a potential new customer	3 months
August 9, 2007	Kelso completes delivery 32 valves ordered by Trinity Tank Car Inc. for new car build	8 months
October 10, 2007	Kelso signs agreement with Mexican firm to promote Kelso valves & provide regional sourcing of business opportunities throughout Central & South America	12 months
October 16, 2007	Approval obtained from AAR for new JS75H PRV	7 months
October 21, 2007	Shares issued to satisfy debts owing to insiders totaling \$297,544.02	3 months
November 11, 2007	Neil E Gambow Jr., a senior manufacturing operations	8 months

	executive, appointed to the position of President of Kelso's wholly-owned US subsidiary, Kelso Technologies (U.S.A.) Inc. effective November 12, 2007. Based in Chicago, Illinois and the former President of Kelso's main competitor, Midland Manufacturing, he assumes responsibility for sales, marketing & manufacturing Kelso over the last two years as the sales, marketing and manufacturing operation	
April 4, 2008	PP closed totaling \$172,299.54, including \$25,716.59 from three insiders of the Company	4 months
April 7, 2008	Kelso signed agreement to acquire 100% rights through 2023 to a revolutionary, patented Manway Cover for the rail tank car & other industries. Company faces potential to more than double its projected sales revenue	12 months
April 15, 2008	Kelso ship 19 JS PRVs to newly-acquired customer, a world-leading producer of and tank car shipper of fertilizer chemicals. Kelso's opportunities increase for the sale of between \$580,000 and \$850,000 innovative products over the period from now to the end of 2008	5 months
April 16, 2008	Kelso demos PRVs & Manway Cover at AAR Meeting in Galveston, Texas to over 50 key rail sector individuals and response is overwhelming	4 months
April 21, 2008	Received an order from a new customer for its pressure relief valves. The Company is preparing to ship 25 valves to a leading producer of chemicals with operations in along the Gulf Coast of Texas and New Mexico	3 months
April 23, 2008	Kelso demos the valve at the Northeast Association of Rail Shippers in Newport, RI	2 months

Overview of the Rail Tank Car Market

The North American new rail tank car market is robust in general but slowing as expected with the glut of ethanol cars being a drag on the new-car market. Buyers are delaying a few orders or changing car types currently on order. Car builders are now offering delivery slots in the 4th quarter of calendar 2008. The slowdown was inevitable with the ethanol-driven boom in the new-car market waning. This is expected to be a brief downturn as the high scrap rate of old cars (see below) takes its toll on the total fleet size and demand for cars squeezed out by the ethanol car build receive attention.

The leasing company fleet tank car utilization has dropped from 98%+ to more like 95%. This is not a big worry for them but making them more aggressive in the market. The leasing companies are retiring old cars early. The high scrap value of a tank car is shortening the accounting life where it is more advantageous to scrap the car than perform the required HM201 upgrade. HM201 will still be a significant opportunity for Kelso products in the

repair/replacement market for the next three years as the bulk of the tank car fleet is scheduled for inspection in that period.

The shippers are being more cost conscious with their new cars and are looking for ways to cut cost of ownership which is good for Kelso. They are driving harder bargains with the leasing companies and car builders. They are also moving away from car ownership to car leasing except in cases where the commodity being shipped is very hazardous (e.g. chlorine).

The Kelso Position

The sales pipeline for the Kelso PRV was extremely limited at the start of December 2007. Given the shortage of personnel in the Company and the pressures on running the public side of the Company with its various critical deadlines and regulatory requirements, there had been very minimal sales work done. As part of the repackaging of the Company and its products, a number of initiatives were undertaken that would change the face and image of Kelso including:

A ***new market message*** has been crafted and launched focusing on superior technology, the low cost-of-ownership and ease of maintenance which allows the PRV to stand on its own. Meeting AAR standards is a given. The product is presented as a significant improvement in technology with AAR approvals and excellent service results in a long-term application. The message has resonated well with the customer base.

A significant number of ***customer visits*** have been made resulting in three important new customers being added to the list of customers to date. ***Attendance at two well-attended Traffic Club meetings*** along with the customer visits has significantly raised the profile of Kelso in the market in all market segments. Activities to get the product approved by the technical organizations at the major leasing companies and car builders are ongoing. This is a critical step in securing the market position we need to have.

Customers, in general, have been concerned about the viability of Kelso in the market. Most are aware of the lack of financing depth and this is definitely an impediment for Kelso. Many are concerned about the risk of Kelso's endurance in the market. They do not want to have a product in their fleets that is not supported over the long haul. ***Work is ongoing to solve this funding problem.***

Kelso has identified ***several new products*** that can be of significant importance to Kelso. (See below.)

Customer Mentality

For many of the potential customers Kelso is an unknown or known only as a boutique player. They may be aware of the Kelso PRV but have not been educated on the merits of the valve. The first order of business in the last three months has been to dramatically expand the visibility of Kelso and expand the Kelso customer base with customer visits and attending key industry meetings. What we find is that the new market message of low cost-of-ownership and ease of maintenance rings true for everyone we talk to.

The concerns usually voiced are Kelso's financing and the long-term performance of the valve in service. It is worth noting that having AAR approval speaks only to the performance of the product and not to its long-term reliability. Thus having AAR approval does not automatically convert to orders. It is simply the ticket to entry into the marketplace. We are finding that

shippers who have progressive, forward-looking management teams and/or younger people in positions of authority are more willing to go with the Kelso product. The car builders and car lessors are less likely to make a significant commitment adopting the mentality of “better the devil you know than the devil you don’t know”. They also defer to the shippers as the decision-makers on car equipment. While this is basically true, the car builders and lessors do have an impact on what equipment is used and covered under their warranty.

It is very important to keep the pressure on all segments of the market. While the Kelso valve represents a considerable opportunity for all market segments, getting the attention of the right people takes persistence and continued contact to stay on their radar screen. They are all busy and have many distractions.

Market Plan

To counter the above, Kelso has adopted a two-pronged attack focusing on getting the necessary internal approvals from lessors and car builders which is key to getting Kelso products on tank cars. First, raise awareness of Kelso products at the shipper level and get them to push the lessors and car builders into approving the Kelso PRV. By meeting with shippers who generally specify the components on their leased and/or owned cars, we are applying pressure from the top of the “food chain”. Shippers like what they see and will ultimately want the builders and lessors to apply the valve through new car specifications developed by the shippers.

Secondly, we are hitting repair shops to apply pressure to the car builders and lessors from the bottom of the “food chain”. Kelso has a considerably simpler and safer valve to handle and has much shorter lead times which are very valuable to a repair shop. They are being encouraged to call the car owner and shipper when a new PRV must be installed and pressure them into approving a Kelso valve for installation. This is particularly important with the volume of HM201 inspections that must be done in the next three years.

This pincer strategy is being augmented by working with the car builders and lessors to get their approvals for the products. Once approvals from the lessors and car builders are in place, a big obstacle to our success is removed. What we get for all this is shipper and repair shop buy-in and heavy pressure on the lessors and car builders to add the Kelso valve to their approved product lists. All of this is supported by customer contacts/visits, product demos, the new market message and soon a customer-friendly web site.

The very recent introduction of the Manway Cover product has created a very favorable “buzz” in the industry which has substantially raised the Kelso market image. Kelso is now regarded as an innovator with products that address some of the long-standing industry problems. Kelso is now on the map for real. The industry is expecting that Kelso can continue with innovative solutions to more known industry problems. Our new products address some of these issues.

It is worth noting we are downplaying the financing and assuring those concerned that financing is available.

Sales Opportunities

Sales in the rest of 2008 are likely to come from the following areas:

Car Builders – As we secure the technical approvals from each builder, the opportunity is to be added to the standard car specifications as an approved product for the car type. Then the continued push made on the car owners and shippers through customer visits and touches should bear fruit on new car builds. At times the car builder will offer a car to unsophisticated buyers and recommend the equipment. The merits of the Kelso product will be continually pushed at the car builder to be the first choice for the sale.

Car builders also own their own lease fleets. The fleet managers who are very conscious of maintenance costs will be worked to get them to specify the Kelso valve on new cars for their fleet. Internal engineering approval is required as a pre-condition for being included in the specification.

Trinity and Union Tank Car are in the process of approving the Kelso valve and should be in place by June. Contact at ARL/ARI has proven to be difficult to make as they continue to duck our request for an initial meeting. Greenbrier is just now setting up their office and will be contacted shortly.

Car Lessors/Owners – Shippers generally give a car specification to a leasing company for cars they wish to add to their respective transportation departments. The major leasing companies will not include any product not approved by their in-house engineering teams. The three major leasing companies, GATX, GE, CIT and several smaller ones (AIG, First Union) are in the process of approving the Kelso valve. Once this approval is obtained, shippers can specify the Kelso valve and the lessors will not object to installing it on their new cars and retrofit cars.

Shippers – Control of the tank car equipment on new and existing cars is usually exercised by the shippers who generally have car specifications of their own. Opportunities appear in new car builds, car leasing programs where cars are coming into a fleet and car retrofits for change in service. Our recent successes are with shippers who see the cost-of-ownership value of the Kelso product. These represent the best near-term volume opportunities.

Repair Shops – Volumes here will be small as the shops order valves for cars actually in the repair line that need a new valve. It is expected that 3-5% of the General Purpose cars coming through the shops will need new Pressure Relief Valves and of that number, Kelso will get 30-50% of the replacements. This is a market entry point for all the shippers and lessors to begin to use the Kelso product.

The largest repair shop market is in the Texas/Louisiana region. Kelso has appointed a regional distributor, Piping & Equipment Inc., who is well established in the market, has people dedicated to the market and many local offices in the region. This will continue to raise the Kelso profile in the market.

New Products

As we have been out in the market, it is clear that Kelso has considerable opportunities to increase PRV product breadth and bring several new products to market to enhance the Kelso image and market participation.

PRV line for GP Cars – There are large holes in the product line that can be filled. A 165# valve with a higher flow rating is needed for commodities like Styrene. The industry wants the Kelso design because there are no components inside the tank car that can “gum up” rendering a valve inoperable. The industry also wants a hinged dome cover for ease of access when a valve must be inspected prior to moving the loaded car (must be done each time the cart is loaded per AAR requirements). The basic Kelso design can be applied to this expansion work without major modifications. Only flow testing is required. AAR field trials are not required for this approach. We have the necessary designs to accomplish all of this.

PRV for Pressure Cars – Once customers (BP, OxyChem, ExxonMobile and others) have seen the Kelso PRV design, they ask for a version for anhydrous ammonia and propane cars which operate at pressures between 225 psi and 280 psi. They particularly like the external valve design which makes it easy to inspect after each loading and virtually guarantees the valve is functional. The internal style PRV can have broken components which cannot be inspected and render the valve inoperable. This causes the shippers to lose sleep over the potential of a serious accident. We have a design ready to develop and a customer – BP - who has offered to do the field service trial.

Manway Cover System - Kelso signed an agreement to acquire a patented, new technology for fastening the dome lid on a General Purpose tank car Manway nozzle that eliminates the eye bolts. The current industry design using 6-8 eye bolts has been around for many years and its limitations are well known. The industry as a whole has committed to reducing Non-Accidental Releases (NARs) in a short period of time in response to a Federal Railroad Administration (FRA) directive to solve the problem – soon! The single largest cause of NARs on GP cars is the current Manway cover design. Kelso’s new prototype, which has seen considerable interest in a very short period of time, was demonstrated at The Chlorine Institute AGM (Chlorine Institute Task Group on Caustic Soda NAR Reductions) to the AAR Tank Car Committee and to a very large Tank Car Manufacturer. We have received valuable input from key industry representatives for refining the design. Our aggressive goal is to have a short field service trial initiated in 3Q08. This product may possibly become an industry standard in the next 5 years. We are ready for the field service development phase of the product.

Objectives for the next 3-9 months

- 1) Develop more sales revenue from the PRV line.
- 2) Continue to expand the customer base with customer visits and product demonstrations on site. Look for new car or retrofit opportunities with those customers.
- 3) Continue to market and sell to the repair shop market using distribution (Piping & Equipment, Inc.) in the key Texas/Louisiana market.
- 4) Continue to work to secure product approvals with tank car manufacturers including Union Tank Car, Trinity, ARL/ARI, GATX, CIT and GE.
- 5) Continue to attend industry meetings (Traffic Clubs in Chicago and Houston), AAR tank car committee meetings in April and October, NEARS (Northeast Association of Rail Shippers) in April, RSI (Rail Supply Institute) in September and others as identified.
- 6) Launch an updated web site.
- 7) Develop the PRV product line extensions for general purpose tank cars, a PRV for pressure cars, and the Manway Cover.
- 8) Secure the necessary financial support for the business.