



KELSO TECHNOLOGIES INC.

FINANCIAL REPORT

for the Three Months Ended

March 31, 2026



KELSO TECHNOLOGIES INC.

MANAGEMENT DISCUSSION & ANALYSIS

THREE MONTHS ENDED

March 31, 2026

(Expressed in US Dollars unless otherwise indicated)



MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS:

- Q1 2026 reflected a transitional quarter in which the Company maintained its core customer relationships, preserved balance sheet strength, advanced the wind-down of legacy operations, and executed an orderly senior leadership succession, leaving the rail tank car equipment business well-positioned for the remainder of fiscal 2026.
- In the face of industry forecasts indicating that North American tank car deliveries will decline by more than 20% in 2026 relative to fiscal 2025, management is executing a focused strategy centered on revenue diversification, market share expansion, and disciplined cost management. The Company expects that the first quarter of 2026 will represent the operational trough for the fiscal year. Order flow and operational momentum have strengthened materially entering the second quarter, and management is encouraged by the early indicators of performance recovery.
- The Company maintained a solid financial position at March 31, 2026, with total assets of \$5,504,516, shareholders' equity of \$4,245,438, working capital of \$2,139,491, and \$750,000 availability on the company's \$1 million line of credit.
- Quarterly revenue of \$1,749,058 and gross margin of 37% reflected reduced customer order volume against a substantially fixed cost base; the Company recognized a net loss from continuing operations of \$427,070 (\$0.01 net loss per share) and ended the period with cash of \$209,459 and accounts receivable of \$860,751, providing near-term liquidity coverage of operating commitments.
- Operating expenses of \$1,079,633 included elevated and substantially non-recurring accounting, legal, consulting, and filing fees of \$256,577 (Q1 2025: \$104,690), associated with completion of the FY2025 audit and the related continuous disclosure cycle. Employee benefit expenses of \$664,359 (Q1 2025: \$663,838) remained substantially flat year-over-year, reflecting management's commitment to maintaining the Company's operational capacity through the cyclical industry downturn while preserving the engineering and production workforce required to support the anticipated recovery in tank car builds in 2027 and 2028.
- The Company preserved a clean and undiluted capital structure, with 55,300,085 common shares outstanding, no new share issuances during the period, no stock options outstanding, and only 203,329 unvested restricted share units remaining.
- The wind-down of the KIQ X discontinued operations is substantially complete, with the loss from discontinued operations narrowing materially to \$3,917 from \$92,645 in Q1 2025, allowing management to focus exclusively on the rail tank car equipment segment.
- Subsequent to quarter-end, the Board effected an orderly senior leadership succession on April 16, 2026. Jesse Crews was appointed Chief Executive Officer, supported by an Office of the CEO comprising the continuing Chief Operating Officer, Amanda Smith, and Chief Financial Officer, Sameer Uplenchwar. Mark Temen was appointed Lead Director. Paul Cass rejoined the Board as an Independent Director, and together with Laura Roach and Mark Temen continues the Board's complement of three knowledgeable independent directors, providing continuity of governance oversight through the leadership transition. The Company's previously disclosed financial guidance and strategic direction remain unchanged..
- The primary focus for the remainder of FY2026 will be maintaining cost discipline and launching the new Angle Valve, as the company prepares for the projected increase in new tank car builds starting in 2027/2028.
- Management is continuing to focus its attention on increasing shareholder value by diversifying the Company's product offering, building new strategic partnerships, and identifying opportunities for vertical integration in 2026. The Company maintains a disciplined approach to capital allocation, prioritizing the reinvestment of capital in the operating business and the evaluation of strategic transactions that support long-term growth objectives, while continuing to consider the full range of capital allocation alternatives available to the Company.



GENERAL

The following management discussion and analysis (“MD&A”) of the operations and financial condition of **Kelso Technologies Inc.** (the “Company” or “Kelso”) provides an overview of significant developments that have affected the Company’s performance during the three months ended March 31, 2026. This MD&A should be read in conjunction with (i) the Company’s unaudited interim consolidated financial statements for the three months ended March 31, 2026 and the related notes thereto, and (ii) the Company’s audited consolidated financial statements for the year ended December 31, 2025, the related notes thereto, and the corresponding annual MD&A.

The unaudited interim consolidated financial statements for the three months ended March 31, 2026 referred to in this MD&A have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The following MD&A and the Company’s unaudited interim consolidated financial statements were approved by the Audit Committee on **April 29, 2026 and the Board of Directors on May 5, 2026.**

All amounts herein are expressed in United States dollars (the Company’s functional currency) unless otherwise indicated.

NON-IFRS FINANCIAL MEASURES

In addition to the results reported in accordance with IFRS Accounting Standards, the Company uses one non-IFRS financial measure known as “Adjusted EBITDA”. Adjusted EBITDA is not recognized under IFRS Accounting Standards as a supplemental indicator of the Company’s operating performance and financial position. This non-IFRS financial measure is provided to enhance the user’s understanding of the Company’s historical and current financial performance and its prospects for the future. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS Accounting Standards. The following discussion explains the Company’s use of “Adjusted EBITDA”.

References to Adjusted EBITDA in this MD&A refer to net earnings from continuing operations before interest, taxes and tax recoveries, amortization, deferred income tax recovery, unrealized foreign exchange losses and gains, non-cash share-based expenses (Black-Scholes option pricing model) gain on revaluation of derivative warrant liability, and write-off of inventory assets. Adjusted EBITDA is not an earnings measure recognized by IFRS Accounting Standards and does not have a standardized meaning prescribed by IFRS Accounting Standards. Adjusted EBITDA is an alternative measure in evaluating the Company’s business performance and Management believes it better reflects the Company’s operational performance. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income as determined under IFRS Accounting Standards; nor as an indicator of financial performance as determined by IFRS Accounting Standards; nor a calculation of cash flow from operating activities as determined under IFRS Accounting Standards; nor as a measure of liquidity and cash flow under IFRS Accounting Standards. The Company’s method of calculating Adjusted EBITDA may differ from methods used by other issuers and, accordingly, the Company’s Adjusted EBITDA may not be comparable to similar measures used by any other issuer. Adjusted EBITDA is the only non-GAAP figure disclosed in this management discussion (See page 4 for reconciliation).

LEGAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains “forward-looking statements” within the meaning of applicable securities laws that reflect the Company’s current expectations, forecasts and assumptions. Generally, forward looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words or phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: new rail tank car production tracking replacement demand; revenue streams from rail tank car operations improving slowly over the upcoming years when new product offerings gain final Association of American Railroads (“AAR”)

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regulatory approvals; longer term adoption of new product developments by the rail industry; increasing sales volume from newly developed products for a wider variety of rail tank car applications; expectations for capital resources and operations to continue the Company's ability to conduct ongoing business as planned for the foreseeable future; the strategic focus and obtaining AAR approvals for the additional products under field service trial to better grow the Company's financial performance; generating minimal exceedance revenue from motivated customers; revenue growth opportunities; the ability of the Company to exploit its growing competitive advantages in the rail industry; becoming the primary, high quality valve supplier and fully servicing the rail tank car market; being on course for new value creation; the commercialization of Kelso's new products; remediation efforts to address the material weaknesses; and growing equity value from financial performance generated from a wider range of new proprietary products.

Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results expressed or implied by such forward-looking statements.

Although Kelso believes the Company's anticipated future results, performance or achievements expressed or implied by the forward-looking statements are based upon reasonable assumptions and expectations, they can give no assurance that such expectations will prove to be correct. The reader should not place undue reliance on forward-looking statements as such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kelso to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation; the economic condition of the railroad industry, which is affected by numerous factors beyond the Company's control (including tariffs, slow sales cycles, creation and adoption of new technologies, the existence of present and possible government regulation and competition); the risk that the Company's products may not work as well as expected; the Company may not be able to break in to new markets because such markets are served by strong and embedded competitors or because of long-term supply contracts; the Company may not be able to grow and sustain anticipated revenue streams; the Company may have underestimated the cost of product development and the time it takes to bring products to market; the Company may not be able to finance the Company's intended product development; that Management may not be able to continue to initiate new product strategies to secure a more reliable growth of financial performance in the future; that testing results for new products may reveal that some or all products being developed are technologically or economically infeasible for market development and may be dropped; that the Company's products may not sell as well as expected, and competitors may offer better or cheaper alternatives to the Company's products; the Company's technologies may not be patentable, and if patents are granted, the Company may not be able to protect the Company's investment in intellectual property if the Company's patents are challenged; the Company's intended technologies may infringe on the intellectual property of other parties; the Company may not have any parties interested in licensing the Company's technology as expected and certain other risks detailed from time-to-time in Kelso's public disclosure documents.

Although the Company has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that could cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are advised to consider such forward-looking statements in light of the risks set forth in the "Risks and Uncertainties" section of this MD&A (Page 17). The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws. Additional information about the Company and Kelso's business activities is available under the Company's profile on SEDAR at www.sedar.com in Canada and on EDGAR at www.sec.gov in the United States or the Company's website at www.kelsotech.com.

DATE OF REPORT

May 5, 2026



SUMMARY OF FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2026 & 2025

Three Months Ended March 31	2026	2025
Revenues	\$1,749,058	\$3,158,074
Gross Profit	\$651,733	\$1,409,754
Gross profit margin	37%	45%
Expenses including non-cash items	\$1,079,633	\$904,772
Net income (loss)	(\$430,987)	\$412,337
Basic/Diluted earnings (loss) per share - continuing ops	(\$0.01)	\$0.01
Basic/Diluted earnings (loss) per share - discontinued ops	(\$0.00)	(\$0.00)
Non-cash expenses	\$0	(\$165)
Adjusted EBITDA (loss) *	(\$439,138)	\$412,172

Liquidity and Capital Resources

Working capital	\$2,139,491	\$2,570,415
Cash	\$209,459	\$417,188
Accounts receivable	\$860,751	\$1,596,583
Net Equity	\$4,245,438	\$4,641,365
Total assets	\$5,504,516	\$6,877,978
Weighted Average Basic/Diluted Common shares outstanding	55,300,085	55,160,086

*** Reconciliation of Net Income (Loss) to Adjusted EBITDA**

Three Months Ended March 31	2026	2025
Net Income (Loss)	(\$430,987)	\$412,337
Unrealized foreign exchange loss (gain)	(\$16,639)	(\$105,794)
Amortization	\$3,741	\$3,741
Income Taxes	\$0	\$0
Loss from discontinued operations	\$3,917	\$92,645
Other Miscellaneous Income (loss)	\$830	\$9,243
Adjusted EBITDA (loss) *	(\$439,138)	\$412,172

(*) Reconciliation of Net Income (Loss) to Adjusted EBITDA for the first quarter ended March 31, 2026 and 2025

Readers are cautioned that Adjusted EBITDA (Loss) should not be construed as an alternative to net income (loss) as determined under IFRS Accounting Standards; nor as an indicator of financial performance as determined by IFRS Accounting Standards; nor a calculation of cash flow from operating activities as determined under IFRS Accounting Standards; nor as a measure of liquidity and cash flow under IFRS Accounting Standards. The Company's method of calculating Adjusted EBITDA may differ from methods used by other issuers and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by any other issuer.



CORPORATE OVERVIEW

Kelso is a diverse product engineering company that specializes in the research, development, production and distribution of proprietary equipment used in various transportation applications. Over the past decade the Company has earned a reputation as a reliable manufacturer of high-quality tank car equipment used in the handling, containment, and transport of hazardous and non-hazardous commodities.

All Kelso products are developed with an emphasis on providing economic and operational advantages to the customer while mitigating the impact of human error and environmental releases. The Company offers specialized tank car and tank trailer equipment, no-spill fast fuel loading systems, and emergency response equipment specific to the rail industry.

The Company has firmly established itself as a leading North American manufacturer of specialized tank car equipment. The Company's core tank car products include safety relief valves for general purposes and pressure tank cars. Additionally, other products include vacuum relief valves, bottom outlet valves, angle valves and a proprietary one-bolt manway. These products provide some of the key elements of a tank car's structure, ensuring the safe handling, containment and transport of hazardous and non-hazardous materials. With a solid history of innovative technology and a reputation anchored by the reliability of supply, the Company serves many of North America's largest tank car builders, lessors and shippers.

The Company's common shares are publicly traded on the Toronto Stock Exchange ("TSX") under the trading symbol "KLS". The Company first listed on the Toronto Stock Exchange on May 22, 2014 and on the NYSE American exchange on October 14, 2014. On March 5, 2024 the Company announced that it had notified the NYSE American of its intention to voluntarily delist its common shares ("Shares") from the NYSE American, which occurred on March 26, 2024. The Shares continue to trade on the TSX.

The Company operates in combination with the Company's wholly owned subsidiaries Kelso Technologies (USA) Inc, KIQ Industries Inc. (ceased), Kel-Flo Industries Inc. (ceased), KIQ X Industries Inc. and KXI™ Wildertec™ Industries Inc. (ceased).

Kelso Technologies (USA) Inc (Kelso Rail)

Kelso is a leading developer and supplier of a wide range of rail tank car valves and equipment designed primarily for use in the hazardous and non-hazardous commodities via rail. The Company's valves help shippers safely deliver hazardous and non-hazardous commodities wherever they need to go in North America. Customer-driven product development and business strategies now bring Kelso's unique competitive advantages with customers as Management pursues the Company's goals of positive financial performance for years to come.

The Company keeps rail products smart, simple and focused on customer needs. Kelso concentrates on sound business fundamentals, operational practices, adjusted EBITDA returns and careful capital management. Today, the Company invests in customer driven co-engineered product development to improve the probability of market adoption as it relates to rail-specific products. Management monitors industry trends and regulated technology requirements, as well as select consideration of potential R&D projects that could benefit the Company's future revenue streams.

The Company currently offers a wide range of proprietary valves and other specialty equipment for tank cars and tank trailers. In the 1990's Kelso's origins were based on unique inventions that better served problematic safety issues in the transport of hazmat commodities by rail tank car. The Company's commercial business evolution began with the adoption of the Company's patented constant force Pressure Relief Valves during the surge in crude-by-rail ("CBR") shipments from 2012 to 2015.



The Company's products offer strong economic value for all tank car stakeholders. This value includes reliable high-quality equipment, industry-leading warranties, high service standards and short lead times for delivery. Over the past decade Kelso has been able to develop a niche in the marketplace for many of the Company's products. Key products include:

Rail and Road Transport Equipment

- Pressure Relief Valves
- Vacuum Relief Valves
- Bottom Outlet Valves (under AAR field service trial)
- Pressure Car Pressure Relief Valves
- Pressure Car Angle Valves (under AAR field service trial)
- DOT 407 PRV/VRV for truck tankers (new market)
- No spill locomotive fueling equipment
- Other specialty valves, parts, equipment and services

Potential Tariff Impact

The rail industry faces risks from potential US tariff actions. These tariffs could drastically increase the cost of imported materials and components, which many companies in the sector rely upon for their manufacturing processes. The increased costs could lead to higher prices for end products, reduced profit margins, and potential disruptions in supply chains.

Kelso believes it is uniquely positioned to mitigate certain of these risks as our valves production takes place in Bonham, Texas. This ensures that all manufacturing processes are under domestic control and not subject to the uncertainties of international trade policies. Moreover, Kelso utilizes US suppliers for its raw materials and components, further insulating the Company from potential US tariff impacts. This strategic approach not only secures a stable supply chain but also enhances the quality and reliability of Kelso's products, providing a significant competitive advantage in a volatile market. Kelso believes that its commitment to domestic production in the US and local sourcing places the Company in a favorable position to navigate the tariff challenges effectively.

Rail Tank Car Market Indicators

The tank car market in North America is not considered a growth industry but rather a cyclical commodity market that is historically unpredictable. Kelso is focused on growing the rail business through the sales of a wider range of pressure relief valves, vacuum relief valves, ball valves, bottom outlet valves, angle valves and other specialized equipment.

Based on current projections from industry analysts (Freight Transportation Research Associates) new tank car deliveries is expected to decline by more than 20% to 7,875 in 2026 down from 9,927 in 2025 before increasing back up to 9,450 in 2027 and 11,700 in 2028. The anticipated new build and re-qualification activity combined with a growing number of qualified Kelso products are expected to fuel new financial growth from rail operations.

The Company will continue to develop new rail products that are anticipated to provide financial growth opportunities. The Company's focus on core design objectives are:

- To ensure public safety by mitigating the potential negative environmental impacts of non-accidental releases of hazardous materials in transit.
- To manage negative and positive pressure within the tank thereby reducing the risks of implosion or explosion ensuring the safe containment of hazardous materials while being loaded, transported and unloaded.
- To improve the customers' operating effectiveness producing economic rewards with proven reliable equipment.
- To build reliable equipment domestically, featuring high-quality U.S. milled or cast parts.



- To ensure that customers benefit with more profitable in-service time for tank cars.

The Company's working capital was \$2,139,491 as at March 31, 2026 which includes \$ 2,261,568 in inventories required for timely customers' deliveries. Capital resources generated from rail operations are anticipated to sustain the Company's capacity to continue its business activities for the foreseeable future.

Kelso plans to strengthen the portfolio of tank car products with the active field service trials in progress for the angle valve and the standard profile ceramic ball bottom outlet valve.

Over the years the Company has established direct relationships with HAZMAT shippers. These interested stakeholders helped design the proprietary Angle Valve for the pressure car market and our Bottom Outlet Valve, featuring unique ceramic technology advantages.

Due to a multitude of factors, the tank car market has shown a renewed focus on repurposing and modifying existing tank car fleets. This has presented Kelso with an opportunity to grow its revenues in the repair, retrofit and requalification space due to manufacturing efficiencies, a reliable supply chain, domestic sourcing initiatives and proven quality and delivery from the facility.

KXI™ Wildertec™ Heavy Duty Suspension System (KXI HD)

In 2017 Kelso through the Company's wholly owned subsidiary KIQ X Industries Inc. (KIQ) began the development of a unique vehicle suspension system that provided new rapid response with off-road capabilities regardless of the climate or the severity of the terrain.

The 2024 year-end review of the KXI project, conducted in accordance with accounting standards, has provided valuable insights into its current status and potential future pathways. It was determined that KXI would not generate commercial revenue in the near future and the expenses for both facility and staff have been accordingly reduced. This review highlighted some key challenges in securing funding for continued development, leading to an adjustment in the project's carrying value.

As a result of this review, the capitalized research and development (R&D) was adjusted to a nominal \$1 and the prototype costs were also lowered to \$1. KXI HD research and development operations were located in a facility in West Kelowna, British Columbia, Canada.

This adjustment represents a responsible and forward-looking approach, positioning us to capitalize on future opportunities and maximize the potential of the KXI project.

PRODUCTION FACILITIES

Kelso currently operates two rail equipment production and R&D facilities totaling 50,000 square feet in Bonham, Texas. The Company is fully qualified and certified to produce products for rail and other industries. The Company has been granted the required certifications including an AAR M1002 Class D Registration and AAR M1003 Quality Assurance System Certification from the Association of American Railroads.

PUBLIC INFORMATION POLICY

The Company advises the public about the Company's business progress by way of quarterly and consolidated annual financial statements as well as MD&A reports for those periods. The Company will issue news releases announcing material events that affect the business health of the Company in accordance with the policies and guidelines of the Toronto Stock Exchange. The Company does not give investment advice to investors and does not respond to solicitations to discuss privileged information from the public in accordance with securities laws in Canada and the United States.

Further, Kelso does not provide forward-looking revenue projections to the public. Kelso is a product development enterprise and Management is unable to measure or determine the future financial impact related to new rail regulations, uncertain technology adoption strategies of customers, and the cyclical conditions surrounding the rail tank car industry. All of these factors are well beyond the control of Kelso.



RESULTS OF OPERATIONS

The financial results for the period ended March 31, 2026 continue to represent the business development activities of a light industrial engineering and production organization. The Company aims to enhance its brand reputation and launch new products and services by researching, developing, and marketing a diverse range of American-made valves and related technologies. The current macroeconomic environment of tariff uncertainty, inflation, high interest rates, and supply chain problems have significantly affected the Company's financial performance as the traditional demand for rail tank car equipment remains depressed.

Kelso generates its revenues and working capital from the sales of equipment for service in the rail tank car industry. Sales performance for the period ended March 31, 2026 was down 45% compared to Q1:2025 while gross margins were lower at 37% compared to 45% for the same period last year primarily driven by reduced customer order volume against a substantially fixed cost base. The rail business activities remain unpredictable as the low production rates of the rail tank car producers continue to challenge the Company's operations. Combined with repair, retrofit and re-qualification operations, rail business activity is expected to be adequate enough to allow the continuation and eventual growth of the Company's rail operations based on the anticipated introduction of new products.

Revenues, corresponding expenses, financial performance and capital management during the three months ended March 31, 2026 reflect Kelso's continued ability to manage the Company's capital resources while navigating difficult market conditions. Financial results met the Company's expectations and reflected the revenues and related operational costs of marketing, producing and distributing the Company's rail equipment as well as key investments in new product development and production capability of a more diverse product mix in the future.

The Company's longer-term strategic plans require Kelso to make ongoing investments in production capabilities (including equipment, lease costs, training and qualifying human resources); rail and transportation regulatory filings; liability insurance; marketing initiatives; independent lab testing and outsourced specialized industrial engineering services; new patent applications; regulatory public company administration processes in Canada and the United States; pre-sales production planning and tooling for the Company's growing portfolio of rail and transportation products. These costs are written off in the period when they occur and their impact is reflected in the reported financial performance of the Company in the period in which they were incurred.

For the three months ended March 31, 2026, the Company reported a net loss of \$430,987 or (\$0.01) per share (net loss of \$427,070 from continuing operations) against revenues of \$1,749,058 compared to net profit of \$412,337 (\$0.01 per share) against revenues of \$3,158,074 during the three months ended March 31, 2025.

Gross profit margin returns were \$651,733 (37% of revenues) for the three months ended March 31, 2026 compared to \$1,409,754 (45% of revenues) during the same period last year. Gross profit was lower reflecting the reduced customer order volume against a substantially fixed cost base.

For the three months ended March 31, 2026, the Company reported expenses of \$1,079,633 on revenue of \$1,749,058 compared to expenses of 904,772 on revenue of \$3,158,074, for the same period last year. The increase in expenses were primarily a result of an increase in non-recurring accounting, legal, consulting, and filing fees of \$256,577 (Q1 2025: \$104,690), associated with completion of the FY2025 audit and the related continuous disclosure cycle. Management continues to focus on examining all expenditures with the intention of eliminating nonessential costs.

Management continues to administer the Company's rail operations, with a refocus on longer-term business growth in the United States and improved capital markets exposure. This is reflected in the Company's investments in human resources, engineering, sales and production operations. For the three months ended March 31, 2026, the Company recorded office and administrative costs of \$439,889 (2025: \$509,981), consulting and filing fees were \$118,433 (2025: \$36,108) and management fees was \$194,077 (2025: \$196,077).

Accounting, audit and legal fees are cost components of the Company's corporate and product development strategies, arbitration costs, and the required administration functions of a publicly listed industrial company on



a major stock exchange. Costs for these professional audit and legal services were \$138,144 for the three months ended March 31, 2026 (2025 – \$68,582). These costs include ongoing US tax and audit requirements. Also included are the costs of complying with the rules and regulations of the Toronto Stock Exchange that involves the complexities of regulatory documentation and disclosures via an Annual Information Form (“AIF”) and the Securities Exchange Commission 20-F submission.

The Company’s functional currency is US dollars although Kelso also holds various assets in Canadian dollars. During the three months ended March 31, 2026, the Canadian dollar has remained volatile in value against the US dollar therefore the Company has recorded a net foreign exchange gains of \$16,639. While movements in foreign exchange rates benefited from the results for the period ending March 31, 2026, such impacts are inherently volatile and may vary significantly from period to period. Adverse movements in exchange rates could result in material foreign exchange losses in future periods.

DISCONTINUED OPERATIONS

During the year ended December 31, 2024, the Company ceased operations of its KXI HD control system (within its wholly-owned subsidiary, KIQ X Industries (“KIQ X”). Management determined the operations of KIQ X to have met the definition of discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Consequently, the operations of KIQ X have been classified separately from the Company’s continuing operations to show a loss from discontinued operations as a single line in the consolidated statements of operations and comprehensive income loss.

As a result of ceasing operations within KIQ X, indicators of impairment existed leading to a test of the recoverable amount of the KIQ X cash-generating unit, which consists of equipment, prototypes and intangible assets. A value-in-use calculation is not applicable as the Company does not have any expected cash flows from using the assets at this stage. In estimating the fair value less costs of disposal, management estimated a recoverable amount of \$NIL representing no pending sale transactions as at March 31, 2026 and December 31, 2025. As this valuation technique requires management’s judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy. There were no instruments transferred in or out of Level 3 during the period ending March 31, 2026 and fiscal year ended December 31, 2025

For the three months ended March 31, 2026 and 2025 the loss from discontinued operations relate to the following:

	March 31, 2026	March 31, 2025
Expenses		
Accounting and legal	-	18,125
Office and administration	-	12,776
Foreign exchange loss (gain)	-	43,187
Amortization	19,865	21,975
Loss before the following	(19,865)	(96,063)
Sale of Property Plant & Equipment	-	3,418
Gain on sublease of ROU asset lease	15,948	-
Net Loss from Discontinued Operations	(3,917)	(92,645)
Cash flows		
Operating activities	15,948	(164,456)
Investing activities	-	25,334
Financing activities	(15,948)	(6,829)
Cash flows used in discontinued operations	-	(145,951)



CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the Company's Management to undertake a number of judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and notes thereto. Actual amounts may ultimately differ from these estimates and assumptions. Management reviews the Company's estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

(a) Impairment of long-lived assets

Long-lived assets consist of intangible assets and property, plant and equipment. Determining the amount of impairment of intangible assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of Management and it is reasonably likely that assumptions and estimates will change from period to period.

(b) Useful lives of depreciable assets

The Company reviews the Company's estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain intangible assets and equipment.

(c) Inventories

The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross margins.

(d) Share-based expense

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility and expected life of the options.

Changes in these assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Restricted and deferred share units are measured using the fair value of the shares on the grant date.

(e) Allowance for credit losses

The Company provides for doubtful debts by analyzing the historical default experience and current information available about a customer's creditworthiness on an account-by-account basis. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation. As at March 31, 2026, the Company has not made an allowance for credit losses.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2026 the Company had cash on deposit in the amount of \$209,459, accounts receivable of \$860,751 prepaid expenses of \$66,791 and inventory of \$2,261,568 compared to cash on deposit in the amount of \$399,375, accounts receivable of \$632,568, prepaid expenses of \$80,015 and inventory of \$2,206,770 as at December 31, 2025. The Company had income tax payable of \$92,104 at March 31, 2026 compared to \$92,104 at December 31, 2025.

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Three Months Ended March 31, 2026

(Expressed in US Dollars unless otherwise indicated)



The working capital position of the Company as at March 31, 2026 was \$2,139,491 compared to \$2,541,625 as at December 31, 2025. The Company anticipates that its capital resources and operations will enable it to continue conducting business as planned for the foreseeable future.

Total assets of the Company were \$5,504,516 as at March 31, 2026 compared to \$5,469,476 as at December 31, 2025. Net assets of the Company were \$4,245,438 as at March 31, 2026 compared to \$4,676,425 as at December 31, 2025.

As at March 31, 2026, the company had drawn down \$250,000 on the line of credit and has \$750,000 available borrowing capacity. Amounts drawn on the line of credit bear interest at the Wall Street Journal prime rate (WSJ Prime Rate) plus 1.00%. At March 31, 2026, the WSJ Prime Rate was 6.75%. The line of credit is secured by a general security agreement over the Company's assets.

Management takes all necessary precautions to minimize risks, however additional risks could affect the future performance of the Company. Business risks are detailed in the Risks and Uncertainties section of this MD&A.



SELECTED QUARTERLY INFORMATION

	Mar 31, 2026	Dec 31, 2025	Sep 30, 2025	Jun 30, 2025
Revenues	\$1,749,058	\$2,174,664	\$2,808,144	\$2,643,208
Gross Profit	\$651,733	\$781,285	\$1,166,259	\$1,075,446
Expenses including non-cash items	\$1,079,633	\$1,056,365	\$1,012,730	\$1,015,187
Net income (loss) for the quarter	(\$430,987)	(\$219,917)	\$182,851	\$72,125
Net Profit (Loss) from Discontinued ops	(\$3,917)	(\$4,267)	(\$4,268)	\$1,420
Basic earnings (loss) per share	(\$0.01)	(\$0.00)	\$0.00	\$0.00
Adjusted EBITDA (loss)	(\$439,138)	(\$263,879)	\$218,880	(\$19,451)
Common shares outstanding	55,300,085	55,300,085	55,160,086	55,160,086

	Mar 31, 2025	Dec 31, 2024	Sep 30, 2024	Jun 30, 2024
Revenues	\$3,158,074	\$2,613,554	\$2,523,282	\$2,891,591
Gross Profit	\$1,409,754	\$1,110,836	\$1,113,199	\$1,359,742
Expenses including non-cash items	\$904,772	\$4,124,954	\$1,487,423	\$1,894,967
Net income (loss) for the quarter	\$412,337	(\$3,014,118)	(\$361,800)	(\$544,927)
Net Profit (Loss) from Discontinued ops	(\$92,645)	(\$1,778,364)	(\$276,588)	(\$434,205)
Basic earnings (loss) per share	\$0.01	(\$0.05)	(\$0.01)	(\$0.01)
Adjusted EBITDA (loss)	\$412,172	(\$820,351)	(\$36,142)	(\$234,217)
Common shares outstanding	55,160,086	55,160,086	54,443,422	54,443,422

SELECTED ANNUAL INFORMATION

	2025	2024	2023
Revenues	\$10,784,090	\$10,680,468	\$10,819,916
Cost of goods sold	\$6,351,346	\$5,986,836	\$6,237,469
Gross profit	\$4,432,744	\$4,693,632	\$4,582,447
Expenses including non cash items	\$3,989,053	\$9,315,929	\$6,684,333
Gains (losses) on other items	\$36,907	(\$1,752,162)	(\$635,135)
Income tax expense	(\$66,559)	\$236,543	\$170,475
Net income (Loss) for the year	\$447,397	(\$4,622,297)	(\$2,101,886)
Net Loss from Discontinued ops	(\$99,760)	(\$2,969,442)	(\$1,983,789)
Avg Number of common shares outstanding	55,183,419	54,551,139	54,443,422
Basic and diluted Loss per common share - continuing operations	\$0.01	(\$0.03)	(\$0.00)
Basic and diluted Loss per common share - discontinued operations	(\$0.00)	(\$0.05)	(\$0.04)
Adjusted EBITDA (Loss)	\$347,723	(\$1,249,326)	(\$845,487)
Cash	\$399,375	\$153,147	\$1,433,838
Working capital	\$2,541,625	\$2,125,386	\$5,026,580
Total assets	\$5,469,476	\$6,570,345	\$9,703,271
Shareholders' equity	\$4,676,425	\$4,229,030	\$8,720,248

* FY2024 numbers adjusted for discontinued operations in accordance with International Financial Reporting Standards (IFRS). Refer to Note 16 of the Q1-2026 Financial Statements.



CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on the Company's consolidated financial statements would not be significant.

FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. The Company has exposure to the following risks from the Company's use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is held with major Canadian and US financial institutions and the Company's concentration of credit risk for cash and maximum exposure thereto is \$209,459 (2025 - \$399,375).

The Company considers its cash deposits to present low credit risk. The majority of cash balances are held with regulated financial institutions whose deposits are eligible for coverage under the Federal Deposit Insurance Corporation ("FDIC") in the United States and the Canada Deposit Insurance Corporation ("CDIC") in Canada. As the Company's total cash balance of \$209,459 is within the standard coverage limits of both schemes, substantially all of the cash balance is expected to be protected under applicable deposit insurance, significantly mitigating the Company's exposure to credit loss on cash.

With respect to its accounts receivable, the Company assesses the credit ratings of all customers and maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. The Company's credit risk with respect to customers' accounts receivable and maximum exposure thereto is \$831,106 (Q1:2025 - \$1,168,524). The Company's concentration of credit risk for accounts receivable with respect to its significant customers is as follows: Customer A is \$533,622 (Q1:2025 - \$570,896), Customer B is \$36,123 (Q1:2025 - \$13,668), Customer C is \$35,488 (Q1:2025 - \$125,057), and Customer D is \$52,238 (Q1:2025 - \$56,898).

(b) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

At March 31, 2026, the Company has \$209,459 (2025 - \$399,375) of cash to settle current liabilities of \$1,259,078 (2025 - \$777,103) consisting of the following: accounts payable and accrued liabilities of \$1,109,977 (2025 - \$628,002), income tax payable of \$92,104 (2025 - \$92,104), the current portion of lease liability of \$56,997 (2025 - \$56,997), and RSU liability of \$0 (2025 - \$0). All payables classified as current liabilities are due within a year. The amount of the Company's remaining undiscounted contractual maturities for the lease liability is approximately \$Nil (2025 - \$15,948) due within one to three years.

During the three months ended March 31, 2026, the Company had drawn down \$250,000 and has \$750,000 available on the line of credit. Amounts drawn on the line of credit bear interest at the Wall



Street Journal prime rate (WSJ Prime Rate) plus 1.00%. At March 31, 2026, the WSJ Prime Rate was 6.75%. The line of credit is secured by a general security agreement over the Company's assets.

(c) Market risk:

The significant market risks to which the Company is exposed are interest rate risk and currency risk.

(i) Interest rate risk:

Interest rate risk is the risk that the Company's fair value or future cash flows may fluctuate as a result of changes in market interest rates. As at March 31, 2026 and December 31, 2025, the Company is not exposed to significant interest rate risk. The Company's exposure is limited to its line of credit, which bears interest at a variable rate based on the WSJ Prime Rate, as described above. Management does not believe that fluctuations in interest rates would have a material impact on the Company's financial position or results of operations.

(ii) Currency risk:

The Company is exposed to currency risk to the extent expenditures incurred or funds received, and balances maintained by the Company are denominated in Canadian dollars ("CAD"). The Company does not manage currency risk through hedging or other currency management tools.

As at March 31, 2026 and December 31, 2025, the Company had the following net monetary assets (liabilities) denominated in CAD (amounts presented in USD):

	March 31, 2026	December 31, 2025
Cash	\$8,271	\$8,607
Accounts receivable	4,890	7,320
Accounts payable and accrued liabilities	(26,663)	(72,945)
	\$(13,502)	\$(57,018)

Based on the above, assuming all other variables remain constant, a ~9% (2025 - 9%) weakening or strengthening of the USD against the CAD would result in approximately \$1,215 (2025 - \$5,132) foreign exchange loss or gain in the consolidated statements of operations and comprehensive income loss. While movements in foreign exchange rates benefited from the results for the period ending March 31, 2026, such impacts are inherently volatile and may vary significantly from period to period. Adverse movements in exchange rates could result in material foreign exchange losses in future periods.

(d) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to other price risk.

CAPITAL MANAGEMENT

The Company considers the Company's capital to be comprised of capital stock. The Company's objective in managing the Company's capital is to maintain the Company's ability to continue to operate as a going concern and to further develop the Company's business goals.

In order to facilitate the management of the Company's capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular



basis to ensure that strategic business objectives are met. There were no changes to the Company's approach to capital management during the three months ended March 31, 2026. There are no externally-imposed restrictions on the Company's capital.

Management continues to undertake a comprehensive review of the Company's operations and is advancing capital management initiatives designed to optimize cash flow performance and operational efficiency. While the Company remains mindful of working capital requirements in light of cyclical industry conditions, management remains focused on the disciplined execution of the Company's strategic priorities and the pursuit of long-term growth. The Company continues to maintain financial flexibility and may, from time to time, consider a range of financing alternatives in support of its strategic objectives, depending on prevailing market conditions and the Company's capital requirements. The Company's overall capital allocation framework is intended to support the long-term creation of shareholder value through the disciplined deployment of capital across operating, strategic, and shareholder return priorities, as conditions warrant.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation. Controls and procedures are designed to ensure that information required to be disclosed is accumulated and communicated to Management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's disclosure controls and procedures (as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2025 and have concluded that such disclosure controls and procedures were not implemented effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards.

Management has evaluated the design of the Company's ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations (2013) ("COSO"). This evaluation was performed by the Chief Executive Officer and Chief Financial Officer of the Company with the assistance of other Company management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's internal control over financial reporting was not effective as of March 31, 2026, due to the material weaknesses. The following are material weaknesses, in the design or operation of internal controls, which could adversely affect the Company's ability to record, process, summarize, and report financial data. Management has identified several material weaknesses in the Company's internal control environment that require remediation.

- IT General Controls("ITGCs"): Our IT general controls for financially relevant systems contain design gaps in key areas, including user access provisioning and deprovisioning, periodic access reviews (including privileged accounts), application change management, and the logging and documentation of certain system activities and disaster recovery procedures. We also did not consistently obtain and assess complementary user entity controls from our service organization SSAE 18 reports. As a result, automated and manual controls within our financial reporting cycles that depend on outputs from these systems cannot be relied upon as effective. The Company also



did not have a cybersecurity policy in place during the period, which management is actively addressing.

- Information Produced by the Entity ("IPE"): As a direct consequence of the ITGC deficiencies above, reviewers of financial information were unable to independently validate system-generated data used in our reporting processes. This limitation effectively undermined the reliability of key activity-level controls across substantially all financial reporting cycles and the assertions embedded in our consolidated financial statements.
- Financial Close and Reconciliation Controls: Beyond the IT-related issues, management recognizes that account reconciliation and review controls were not consistently performed or maintained at the level required for our financial reporting cycles. Resource constraints within our accounting and finance functions also resulted in insufficient segregation of duties and, in certain instances, delayed our ability to analyze and conclude on the appropriate accounting treatment for specific transactions in a timely manner.

Management is committed to remediating these deficiencies and has begun prioritizing the allocation of resources, process redesign, and policy development necessary to strengthen our control environment. Management will provide updates on the status of remediation efforts as they progress. Considering these material weaknesses, we performed additional analyses as deemed necessary to ensure that our financial statements were accurately prepared and in accordance with IFRS. No assurance can be provided at this time that the actions and remediation efforts of the Company will effectively remediate the material weaknesses or prevent the occurrence of other significant deficiencies or material weaknesses in the Company's internal controls over financial reporting in the future.

RISKS AND UNCERTAINTIES

The Company's business operations involve several known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results expressed or implied by forward-looking statements in this annual report. The Company is diligent in minimizing exposure to business risk, but by the nature of the Company's activities and size, will always involve some risk. These risks are not always quantifiable due to their uncertain nature.

"The Company's products involve detailed proprietary and engineering knowledge and specific customer adoption criteria. If the Company is not able to effectively protect the Company's intellectual property or cater to specific customer adoption criteria, the Company's business may suffer a material negative impact and could fail."

The success of the Company will be dependent on the Company's ability to successfully develop; qualify under current industry regulations; and protect the Company's technologies by way of patents and trademarks.

The Company has obtained patents for the Company's external Constant Force Spring Pressure Relief Valves, Vacuum Relief Valve and Bottom Outlet Valve. If the Company is unable to secure trademarks and patent protections for the Company's intellectual property in the future, or that protection is inadequate for future products, the Company's business may be materially adversely affected.

Further, there is no assurance that the Company's rail equipment products and other aspects of the Company's business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although the Company is not aware of any such claims, the Company may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of the Company's business. If the Company is found to have violated the intellectual property rights of others, the Company may be enjoined from using such intellectual property, and the Company may incur licensing fees or be forced to develop alternatives. In addition, the Company may incur substantial expenses and diversion of management time in defending against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against the Company may result in substantial monetary liabilities, which may materially and adversely disrupt the Company's business.



“The Company is engaged in complex research and development activities where testing results may deem prospective products technologically or economically infeasible.”

The Company invests in R&D activities that focus on the innovation of new products. The primary purpose of these R&D investments is to advance and broaden the Company’s portfolio of commercial products that can improve the growth of future financial performance of the Company. These R&D activities focus on a longer-term horizon and are not anticipated to generate immediate financial performance returns. Returns on investment on R&D are always uncertain and cannot be guaranteed. There is a risk that during the processes of R&D development testing results may reveal that some or all products being developed are technologically or economically infeasible for market development and may be dropped.

“The Company may be unable to secure or maintain regulatory qualifications for the Company’s products.”

The AAR requires all products to follow a lengthy and quite rigorous approval process and subsequent field service trial before they can be applied to tank cars by customers in the rail industry. The Company has been successful in obtaining AAR approvals for the Company’s key products; however, there is no guarantee that the Company’s products will continue to meet AAR standards or that new products developed by the Company will receive AAR approval. The Company’s failure to obtain AAR approval on new products and maintain AAR certification could have a negative impact on the Company’s ability to generate revenue.

“International conflict, trade relations and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, tariffs, worker strikes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets.”

Currently, there are various factors that impact geopolitical risk and uncertainty, including but not limited to the elevated geopolitical risk exemplified by ongoing active conflicts in the Middle East, between the US and Iran, Israel and Palestine, and in Europe, between Russia and Ukraine, as well as risks associated with China-Taiwan tensions. The recent conflict in the Middle East which escalated significantly in February 2026 has resulted in attacks on commercial vessels, disruption of shipping trade routes and high risk in entering the Strait of Hormuz. The heightened military conflict has led to profound instability in global financial and energy markets. These events, including the closure of strategic airspaces and critical maritime routes, have contributed to a dramatic increase in the price of oil and gas and created widespread market uncertainty. The ongoing disruptions caused by these military actions, and the potential for further escalation, could result in protracted and severe damage to the global economy and investment climate. The imposition of strict economic sanctions by Canada, the United States, the European Union, the United Kingdom and others in response to such conflict may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for the Company. The extent and duration of international conflicts, geopolitical tensions and related international action cannot be accurately predicted, and the effects of such conflicts may magnify the impact of the other risks identified herein.

“Impact of tariffs and trade measures on the Company’s operations and the global economies.”

The evolving regulatory landscape including the implementation and modification of tariffs, trade restrictions, and changes in trade agreements globally, together with general uncertainty about future changes in policy (including any new regulations, increased tariff rates, new tariffs or trade restrictions that may be implemented), could adversely affect the Company. On February 20, 2026, the Supreme Court of the United States struck down tariffs previously enacted under the United States *International Emergency Economic Powers Act* as invalid. However, the full implications of this decision remain uncertain amid rapidly evolving international trade and regulatory developments, including potential governmental responses relating to tariffs, trade agreements, or other trade measures. While discussions regarding global trade policies continue, significant uncertainty remains over whether tariffs, surtaxes, or other restrictive trade measures or countermeasures will ultimately be implemented and, if so, the scope, impact, and

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duration of any such measures. Potential measures could include, among others, increased tariffs on Canadian energy exports, restrictions on cross-border supply chains, or additional regulatory barriers that could impact the Company's ability to access international markets.

If imposed, restrictive trade measures or countermeasures could have adverse effects on the Company's operations by further disrupting supply chains, increasing costs for raw materials and impacting overall financial performance, in addition to having a material adverse effect on the U.S., Canadian and/or global economies. Tariffs on steel, aluminum, and other industrial materials may increase the cost of equipment, production and manufacturing processes, potentially impacting capital expenditures and operational efficiency. In addition, retaliatory measures or prolonged trade disputes may further increase costs, disrupt supply chains, and introduce regulatory uncertainty. The conditions may also lead to higher operating costs for our customers, as well as tighter operating budgets and more cautious capital spending decisions. While the Company continues to monitor trade policies and adapt its procurement and operational strategies, any prolonged restrictive trade measures could negatively impact margins and overall market conditions.

"The Company may not have sufficient capital to meet increases in business demands and may be unable to sustain the Company's ability to grow the Company's operations as anticipated."

Although the Company has a positive working capital, the Company may, from time to time, face a working capital deficit. To maintain the Company's activities, the Company may require access to additional capital through the sale of securities or obtaining debt financing. There can be no assurance that the Company will be successful in obtaining such additional financing and failure to do so could result in the inability of the Company to develop new products; meet production schedules; execute delivery orders; and continue the Company's strategic operations.

"The Company has a limited history of earnings and a history of net losses and may not be able to achieve the Company's growth objectives."

The Company has a limited history of sustained earnings and has a history of net losses and Adjusted EBITDA losses. The Company is subject to all of the business risks and uncertainties associated with any business enterprise which is transitioning from product development to profitable operations, including the risk that the Company will not achieve the Company's growth objectives.

There is no assurance that the Company will be able to successfully complete the Company's business development plans or operate profitably over the short or long term. Further, the Company may continue to incur losses and will have to generate and sustain increased revenues to achieve future profitability. Achieving profitability will require the Company to increase revenues, manage its cost structure, and avoid significant liabilities. The Company is dependent upon the good faith and expertise of Management to identify, develop and operate commercially viable product lines. No assurance can be given that the Company's efforts will result in the development of additional commercially viable product lines or that the Company's current product lines will prove to be commercially viable in the long term. If the Company's efforts are unsuccessful over a prolonged period, the Company may have insufficient working capital to continue to meet ongoing obligations and the Company's ability to obtain additional financing necessary to continue operations may also be adversely affected. Even if the Company is successful in developing one or more additional product lines, there is no assurance that these product lines or the Company's existing product lines will be profitable. Additionally, the Company may encounter unforeseen operating expenses, difficulties, complications, delays, quality problems, and other unknown factors that may result in losses in future periods.

"New commercial markets for the Company's products may not develop as quickly as anticipated or at all."

Markets for the Company's products may not develop as quickly as anticipated, or at all, resulting in the Company being unable to meet the Company's revenue and production targets. This may have a material negative impact on the Company, particularly if the Company has incurred significant expenses to cater to increased market demand and such market demand does not materialize.



“Unforeseen competition could affect the Company’s ability to grow revenues as projected.”

Although the Company has patents, trademarks and other protections in place to protect the proprietary technology on which the Company’s business is dependent, competitive products may be developed in the future. Competition could adversely affect the Company’s ability to acquire additional market share or to maintain revenue at current and projected levels. While every effort is made to track current and future competitors, new entrants from outside the USA and Canada may be difficult to identify until market entry occurs.

“Customer orders that are placed may be cancelled or rescheduled.”

Although the Company makes efforts to ensure customers are satisfied with the Company’s products, there is a risk that customers may cancel purchase orders before they are filled. This could have a material negative impact on the Company, particularly if the Company has already ordered the component parts required to assemble the finished products or if the Company has assembled the required finished products. The negative impact may be mitigated by the Company’s ability to utilize the component parts and finished products to satisfy other purchase orders, but there is no guarantee that the Company will be able to mitigate the risk of loss to the Company from cancelled orders in this manner. Cancelled orders are normally subject to a cancellation fee to reduce loss.

“The Company is dependent on a small number of OEM customers.”

Although Management is optimistic about the Company’s future as a railway equipment supplier, the Company is highly dependent upon the success of four major tank car manufacturers as they provide a significant portion of the Company’s revenue. The Company does not have any long-term purchase agreements, annual minimum sales requirements or blanket purchase order agreements with customers. Sales are generated on an as needed basis and purchase orders are scheduled according to production availability. The Company expects that this limited number of customers will continue to represent a substantial portion of the Company’s sales for the foreseeable future. The loss of any of these customers could have a material negative impact upon the Company and the Company’s results of operations.

“Current products may not perform as well as expected.”

There is a risk that the Company’s products may not perform as well as they have historically, which could result in customer complaints, returned products, product recalls and/or loss of repeat customer orders. Any of these issues could have a material negative impact on the Company’s ability to generate revenue and continue operations.

“There may be a shortage of parts and raw materials.”

The Company currently dual sources all components domestically for all product lines. There is a potential risk from time to time that the Company could face a shortage of parts and raw materials so suppliers are unable to support current or increased customer demand. This could have a material negative impact on the business development plans of the Company, the Company’s revenues and continued operations.

“Production capacity may not be large enough to handle growth in market demand.”

The Company’s production facilities may not be large enough to handle growing market demand for the Company’s products if market demand is above projected levels. The Company may not have sufficient capital to fund increased production at the Company’s existing facilities or to add new production facilities, and even if the Company did have sufficient funds for these purposes, the turnaround time to increase production may not be fast enough to meet market demand. This may have a material negative impact on the Company’s ability to maintain existing customers and expand the Company’s customer base, and the Company’s ability to generate revenue at current and projected levels.

“The Company’s product development efforts may not result in new qualified commercial products.”



The Company's ambition to design, research and develop proprietary products for the rail industry may not successfully transition into other industries. The inability to break into new markets and industries may in the future have a negative impact on the Company. The Company's investment in new product research is written off in the period in which it is incurred to account for the unpredictable nature of research projects.

"The Company may face uninsurable or underinsured risks."

During development and production of rail equipment products, certain risks, and in particular, destruction of production facilities by a natural disaster, acts of terrorism, acts of war or patent infringement may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks because of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. Of the above-listed risks, only an act of war is truly uninsurable. The Company maintains commercial general liability insurance for claims up to \$2,000,000 in general aggregate and \$1,000,000 each occurrence, as well as \$2,000,000 product-completed operations aggregate. Additionally, the Company maintains umbrella liability insurance for claims up to \$4,000,000 in annual aggregate.

Although the Company believes that the insurance policies currently in place adequately insure the Company given the size of the Company's customer base and revenues from product sales, there is a risk that the Company's insurance coverage may not be sufficient to cover future products claims.

"Raw materials used by the Company for the production of the Company's products are subject to price fluctuations which could change profitability expectations."

Many of the materials used in the Company's products are common raw materials such as steel and rubber. These raw materials may be subject to significant price fluctuations. A steep rise in the price of such raw materials may have an adverse effect on the financial returns of the Company's products and could negatively impact the Company's operating results. Considering the Company does not have any purchase agreements with customers, the Company is able to mitigate the risks associated with price fluctuations by adjusting the pricing structure as necessary. However, there is no guarantee that customers will continue to purchase the Company's products if prices are adjusted due to the fluctuation in the price of raw materials.

"The success of the Company's business depends substantially on the continuing efforts of the Company's senior executives, and the Company's business may be severely disrupted if the Company loses their services."

The future success of the Company depends upon the continued services of the Company's senior executives and other key employees. In particular, the Company relies on the expertise and experience of the Senior management team of Kelso Technologies Inc. and Kelso Technologies (USA) Inc. If one or more of the Company's senior executives were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. If any of the Company's senior executives join a competitor or form a competing company, the Company may lose clients, suppliers, key professionals, technical know-how and staff members.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described on forward-looking statements.



RELATED PARTY TRANSACTIONS

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company's directors and other members of key management, being the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer who have the authority and responsibility for planning, directing and controlling the activities of the Company consist of the following amounts:

	March 31, 2026	March 31, 2025
Management Compensation	\$194,077	\$196,077
Directors' fees	\$28,750	\$28,750
	\$222,827	\$224,827

DISCLOSURE OF OUTSTANDING SHARE DATA AS AT MARCH 31, 2026

- 1) Common shares issued and outstanding: 55,300,085
- 2) Share purchase options outstanding: Nil
- 3) Share purchase warrants outstanding: Nil
- 4) Restricted share units outstanding: 203,329

OUTLOOK

Kelso Technologies Inc. entered fiscal 2026 from a position of renewed profitability, having delivered its first full year of profitable operations since fiscal 2020 with FY2025 net income from continuing operations of \$547,157 (with a \$99,760 loss from discontinued operations, resulting in total comprehensive net income of \$447,397) on gross revenue of \$10.78 million. The first quarter of fiscal 2026 represents a transitional period in which the Company is advancing a deliberate strategy to navigate a cyclical industry downturn while positioning for the anticipated recovery in new tank car builds commencing in 2027 and 2028. Against industry forecasts indicating that North American tank car deliveries will decline by more than 20% in 2026 relative to fiscal 2025, management is executing a focused strategy centered on revenue diversification, market share expansion, and disciplined cost management. The Company expects that the first quarter of 2026 will represent the operational trough for the fiscal year, with order flow and operational momentum having strengthened materially entering the second quarter.

Operational efficiency and cost discipline remain foundational to Kelso's strategy. In the first quarter of fiscal 2026, employee benefit expenses of \$664,359 (Q1 2025: \$663,838) remained substantially flat year-over-year, reflecting management's commitment to maintaining the Company's operational capacity through the cyclical industry downturn while preserving the engineering and production workforce required to support the anticipated recovery in tank car builds in 2027 and 2028. This disciplined approach to workforce planning is consistent with the 27% reduction in total expenses achieved in fiscal 2025 and continues to position the Company to scale operating activity efficiently as order flow recovers. Reported operating expenses for the quarter of \$1,079,633 included elevated and substantially non-recurring professional and filing fees of \$256,577 associated with completion of the FY2025 audit and continuous disclosure cycle, which are not expected to recur at comparable levels in subsequent quarters.

Management is continuing to focus its attention on increasing shareholder value by diversifying the Company's product offering, building new strategic partnerships, and identifying opportunities for vertical integration in 2026. The Company maintains a disciplined approach to capital allocation, prioritizing the reinvestment of capital in the operating business and the evaluation of strategic transactions that support long-term growth objectives, while continuing to consider the full range of capital allocation alternatives available to the Company.



The Company's strategic focus in fiscal 2026 includes advancing full Association of American Railroads approvals for its Angle Valve and Bottom Outlet Valve, both of which remain in service trials. The principal operational priorities for the remainder of the fiscal year are the continuation of disciplined cost management and the commercial launch of the new Angle Valve, positioning Kelso to participate in the anticipated cyclical recovery in new tank car builds commencing in 2027 and 2028. These product approvals are expected to unlock new revenue streams and strengthen the Company's ability to offer comprehensive product packages to its customer base. The Company's \$1.0 million revolving line of credit, of which \$750,000 remains available at the date hereof, continues to provide financial flexibility to support working capital requirements and strategic initiatives as growth opportunities present themselves.

SUMMARY

Kelso Technologies Inc. is navigating a cyclical industry downturn in fiscal 2026 from a foundation of demonstrated operational improvement, disciplined cost management, and a clear diversification strategy. While the first quarter reflected reduced customer order volume and elevated non-recurring professional fees, the Company's sound financial position, clean capital structure, substantially completed wind-down of legacy operations, and orderly leadership succession collectively position Kelso to execute on its strategic priorities through the balance of the year. The Company's proactive measures — advancement of the Angle Valve and Bottom Outlet Valve approval processes, exploration of adjacent markets and vertical integration opportunities, and preservation of financial flexibility through its revolving credit facility — are aligned with the anticipated cyclical recovery in new tank car builds commencing in 2027 and 2028.

With an undiluted capital structure, strong asset base, no term debt obligations, a revolving credit facility providing working capital flexibility and a renewed focus on innovation and operational execution, Kelso remains well positioned to capitalize on industry recovery and rising demand for advanced valve technologies, with a view to driving sustainable profitability and shareholder value over the longer term.

Kelso Technologies Inc.

Jesse Crews,
Chief Executive Officer



KELSO TECHNOLOGIES INC.

Consolidated Interim Financial Statements
For the three months ended March 31, 2026
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL REPORT

The accompanying unaudited consolidated interim financial report of the Company has been prepared by and is the responsibility of the Company's management. The Company's independent auditor has not performed a review or audit of this financial report.

Kelso Technologies Inc.

Consolidated Statements of Financial Position
at March 31, 2026 and December 31, 2025
(Unaudited – Prepared by Management)
(Expressed in US Dollars)



	March 31, 2026	December 31, 2025
Assets		
Current		
Cash (Note 5)	209,459	399,375
Accounts receivable (Note 5)	860,751	632,568
Prepaid expenses	66,791	80,015
Inventory (Note 6)	2,261,568	2,206,770
	3,398,569	3,318,728
Property, plant and equipment (Note 7)	1,945,044	1,989,845
Deferred Tax Asset (Note 17)	160,902	160,902
Intangible assets (Note 8)	1	1
TOTAL ASSETS	5,504,516	5,469,476
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	1,109,977	628,002
Income tax payable (Note 17)	92,104	92,104
Current portion of lease liability (Note 9)	56,997	56,997
	1,259,078	777,103
Long term portion of lease liability (Note 9)	-	15,948
TOTAL LIABILITIES	1,259,078	793,051
Shareholders' Equity		
Capital Stock (Note 10)	27,349,495	27,349,495
Reserves	4,785,166	4,785,166
Deficit	(27,889,223)	(27,458,236)
	4,245,438	4,676,425
TOTAL LIABILITIES AND EQUITY	5,504,516	5,469,476

Approved on behalf of the Board:

"Mark Temen" (signed)

Mark Temen, Director

"Paul Cass" (signed)

Paul Cass, Director

See notes to consolidated financial statements

Kelso Technologies Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the three months ended March 31, 2026 and 2025
(Expressed in US Dollars)



	Three Months Ended March 31	
	2026	2025
Revenues	\$1,749,058	3,158,074
Cost of Goods Sold	1,097,325	1,748,320
Gross Profit	651,733	1,409,754
	37%	45%
Expenses		
Share-based expense (Note 10 (b))	-	-
Management fees (Note 11)	194,077	196,077
Consulting and filing fees	118,433	36,108
Accounting and legal	138,144	68,582
Office and administration	439,889	509,981
Research	70,647	66,957
Travel	48,808	37,352
Marketing	82,533	91,768
Foreign exchange loss (gain)	(16,639)	(105,794)
Amortization	3,741	3,741
	1,079,633	904,772
Income (Loss) before the following	(427,900)	504,982
Other Miscellaneous Income	830	-
Net Income (Loss) before taxes	(427,070)	504,982
Income tax recovery (expense)	-	-
Net Income (Loss) for the Period from continuing operations	(427,070)	504,982
Net Income (Loss) for the Period from discontinued operations (Note 16)	(3,917)	(92,645)
Net Comprehensive Income (Loss) for the Period	(430,987)	412,337
Basic and Diluted Earnings		
(Loss) Per Share from continuing operations	(0.01)	0.01
Basic and Diluted Earnings		
(Loss) Per Share from discontinued operations	(0.00)	(0.00)
Weighted Average Number of Common Shares Outstanding		
Basic	55,300,085	55,160,086
Diluted	55,300,085	55,160,086

See notes to consolidated financial statements

Kelso Technologies Inc.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2026 and years ended December 31, 2025 and 2024

(Expressed in US Dollars)



	Capital Stock				
	Number of Common Shares	Amount	Reserve	Deficit	Total
Balance, December 31, 2023	54,443,422	\$27,183,439	\$4,820,145	(23,283,336)	\$8,720,248
Shares issued for RSUs	716,664	152,020	(152,020)	-	-
Share-based expense	-	-	165,510	-	165,510
Repurchase of RSUs	-	-	(34,431)	-	(34,431)
Net loss for the year	-	-	-	(4,622,297)	(4,622,297)
Balance, December 31, 2024	55,160,086	\$27,335,459	\$4,799,204	(27,905,633)	\$4,229,030
Shares issued for RSUs	139,999	14,036	(14,036)	-	-
Share-based expense	-	-	13,969	-	13,969
Repurchase of RSUs	-	-	(13,971)	-	(13,971)
Net income for the year	-	-	-	447,397	447,397
Balance, December 31, 2025	55,300,085	\$27,349,495	\$4,785,166	(27,458,236)	\$4,676,425
Shares issued for RSUs	-	-	-	-	-
Share-based expense	-	-	-	-	-
Repurchase of RSUs	-	-	-	-	-
Net loss for the period	-	-	-	(430,987)	(430,987)
Balance, March 31, 2026	55,300,085	\$27,349,495	\$4,785,166	(27,889,223)	\$4,245,438

See notes to consolidated financial statements



	March 31, 2026	March 31, 2025
Operating Activities		
Income (loss) from continuing operations	(427,070)	504,982
Items not involving cash		
Amortization of equipment and patent	24,937	24,937
Share-based expense	-	-
Foreign exchange	(16,639)	(105,793)
	(418,772)	424,126
Changes in working capital		
Accounts receivable	(205,894)	(500,169)
Prepaid expenses and deposit	(9,064)	(24,748)
Inventory	(54,799)	424,760
Accounts payable and accrued liabilities	481,974	(19,770)
	212,217	(119,927)
Cash Operating Activities from Continuing Operations	(206,555)	304,199
Cash Operating Activities from Discontinued Operations	15,948	(164,456)
	(190,607)	139,743
Investing Activities		
Acquisition of property, plant and equipment	-	-
Cash Investing Activities from Continuing Operations	-	-
Cash Investing Activities from Discontinued Operations	-	25,334
		25,334
Financing Activities		
Issuance of common shares	-	-
Repurchase of RSUs	-	-
Lease liability payments	-	-
Cash Financing Activities from Continuing Operations	-	-
Cash Financing Activities from Discontinued Operations	(15,948)	(6,829)
	(15,948)	(6,829)
Foreign exchange effect on cash	16,639	105,793
Inflow (Outflow) of Cash	(189,916)	264,041
Cash, Beginning of Period	399,375	153,147
Cash, End of Period	209,459	417,188

Supplemental Cash Flow Information (Note 12)
See notes to consolidated financial statements



1. NATURE OF OPERATIONS

Kelso Technologies Inc. (the “Company”) was incorporated under the laws of British Columbia on March 16, 1987. Kelso is a diverse product engineering company that specializes in the research, development, production and distribution of proprietary equipment used in various transportation applications. Over the past decade the Company’s reputation has been earned as a developer and reliable supplier of high-quality rail tank car equipment used in the handling and containment of hazardous and non- hazardous commodities during transport. In addition, the Company was previously developing proprietary service equipment to be used in transportation applications. During the year ended December 31, 2024, the Company ceased development activities within its subsidiary, KIQ X Industries Inc. (“KIQ X”), related to the active suspension control system (Note 16).

The Company trades on the Toronto Stock Exchange (“TSX”) under the symbol “KLS” and used to trade on the New York Stock Exchange (“NYSE”) under the trading symbol “KIQ”. The Company listed on the TSX on May 22, 2014 and on the NYSE on October 14, 2014. The Company delisted from the NYSE on March 26, 2024. The Company’s head office is located at 305-1979 Old Okanagan Hwy, West Kelowna, British Columbia, V4T 3A4.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

These consolidated financial statements have been prepared under the historical cost basis, except for financial instruments, which are stated at their fair values. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(b) Basis of presentation and consolidation:

The consolidated financial statements include the accounts of the Company and its integrated wholly owned subsidiaries, Kelso Technologies (USA) Inc., Kel-Flo Industries Inc. (ceased), and KIQ Industries Inc. (ceased) which are all Nevada, USA corporations as well as KIQ X Industries and KXI Wildertec Industries Inc. (ceased), which were incorporated in British Columbia, Canada. Intercompany transactions and balances have been eliminated in consolidation. Subsidiaries are consolidated from the date upon which control is acquired by the Company and all material intercompany transactions and balances have been eliminated in consolidation.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(c) Functional and presentation currency:

The functional and presentation currency of the Company and its subsidiaries is the US dollar (“USD”).

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty:

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the Company's management to undertake a number of judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and notes thereto. Actual amounts may ultimately differ from these estimates and assumptions. The Company reviews its estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and may impact future periods.

Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses:

(i) Income taxes:

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company generating future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in classifying transactions and assessing probable outcomes of tax positions taken, and in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

(ii) Functional currency:

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined its functional currency and that of its subsidiaries is the USD. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

(iii) Research and development expenditures:

The application of the Company's accounting policy for research and development expenditures requires judgment in determining whether an activity is determined to be research or development, and if deemed to be development, whether it is probable that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information becomes available indicating that it is unlikely that future economic benefits will flow to the Company, the amount capitalized is written off to profit or loss in the period the new information becomes available.

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Significant management judgments (continued)

(iv) Treatment of restricted share units:

The treatment of restricted share units (“RSUs”) requires management to apply judgment in assessing the terms and conditions of the grant, as well as the historical method of settlement, to determine whether RSUs will be equity-settled or cash-settled.

(v) Assets held for sale and discontinued operations:

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the consolidated statements of financial position. Criteria considered by management includes the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale, and the period of time any amounts have been classified within assets held for sale. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Judgment is applied in determining whether disposal groups represent a component of the entity, the results of which should be recorded as discontinued operations in the consolidated statements of operations and comprehensive income loss.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

(i) Impairment of long-lived assets:

Long-lived assets consist of intangible assets and property, plant and equipment.

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and those not in use are tested for impairment annually. When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Estimation uncertainty (continued)

(i) Impairment of long-lived assets (continued):

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(ii) Useful lives of depreciable assets:

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain intangible assets and equipment.

(iii) Inventories:

The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices or decline in customer demands may result in excess or obsolete inventory. A change to these assumptions could impact the Company's inventory valuation and impact gross margins.

(iv) Share-based expense:

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statements of operations and comprehensive income loss and credited to reserves, over the vesting period using the graded vesting method, after adjusting for the estimated number of awards that are expected to vest.

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted for share-based payments made to employees or others providing similar services. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires making assumptions to determine the most appropriate inputs to the valuation model including the fair value of the underlying common shares, the expected life of the share option or warrant, volatility, expected forfeiture rate and dividend yield. Changes in these assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share-based awards. Warrant liabilities are accounted for as derivative liabilities as they are exercisable in Canadian dollars (note 10).

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Estimation uncertainty (continued)

(iv) Share-based expense (continued):

Equity-settled restricted and deferred share units are measured using the fair value of the shares on the grant date. Cash-settled restricted and deferred share units are measured using the fair value of the shares on the settlement date (Note 10).

(v) Allowance for credit losses:

The Company provides for doubtful debts by analyzing the historical default experience and current information available about a customer's creditworthiness on an account-by-account basis. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation. Historically, adjustments related to credit losses have not had a material impact on the Company's financial statements.

(vi) Lease liability:

The Company uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency, and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations are estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms, and security in a similar environment. The Company applies judgment in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term.

(e) Approval of the consolidated financial statements:

The consolidated financial statements of the Company for the period ended March 31, 2026 were approved and authorized for issue by the **Board of Directors on May 5, 2026.**

(f) New accounting standards issued but not yet effective:

The following standards have been issued by the IASB but are not yet effective. The Company has not early adopted any of these standards and is continuing to assess their impact in advance of their respective effective dates.

- *IFRS 18 Presentation and Disclosure in Financial Statements* is effective for annual periods beginning on or after January 1, 2027 and will replace IAS 1 Presentation of Financial Statements. IFRS 18 introduces changes to the structure and presentation of the statement of profit or loss, including new required categories and subtotals, and expands disclosure requirements..
- *IFRS 19 Subsidiaries without Public Accountability: Disclosures* is effective for annual periods beginning on or after January 1, 2027. This standard permits eligible subsidiaries that are not publicly accountable to apply reduced disclosure requirements under IFRS Accounting Standards.

3. MATERIAL ACCOUNTING POLICIES

The following is a summary of material accounting policies:

(a) Inventory:

Inventory components include raw materials and supplies used to assemble valves and other products, as well as finished valves and other finished products. All inventories are recorded at the lower of cost on a weighted average basis and net realizable value. The stated value of all inventories includes purchase and assembly costs of all raw materials and supplies, and attributable overhead and amortization. A regular review is undertaken to determine the extent of any provision for obsolescence. When a circumstance that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The amount of the reversal is limited to the amount of the original write-down.

(b) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives as follows:

Patents	– 5 years
Rights	– 2 years
Intellectual Property	– 7 years

Amortization begins when the intangible asset is ready for use. Product and technology development costs, which meet the criteria for deferral and are expected to provide future economic benefits with reasonable certainty are deferred and amortized over the estimated life of the products or technology once commercialization commences.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any. Leasehold improvements and prototypes are amortized on a straight-line basis over the lease term and estimated useful life respectively. Amortization is calculated over the estimated useful life of the property, plant and equipment at the following annual rates:

Building	– 4% declining-balance
Production equipment	– 20% declining-balance
Leasehold improvements	– 5 year straight-line
Prototypes	– 2 year straight-line

(d) Revenue recognition:

Revenues from the sale of valves, manway securement systems, and related products are recognized when the Company satisfies its performance obligations under the customer contract, which typically consists of a purchase order. The Company's performance obligations generally include the manufacture and delivery of the specified products.

Revenue, net of discounts, is recognized when control of the goods transfers to the customer, which depends on the applicable shipping terms. For sales under FOB shipping point terms, revenue is recognized upon shipment of the goods. For sales under FOB destination terms, revenue is recognized upon delivery of the goods to the customer's specified location. Revenue is recognized only when collection of the consideration is reasonably assured.

(e) Impairment of long-lived assets:

The Company's tangible and intangible assets with definite useful lives are reviewed for any indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Intangible assets not yet available for use or those with indefinite useful lives are tested annually for impairment. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflow from other assets or groups of assets.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(f) Income taxes:

(i) Current and deferred income taxes:

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of operations and comprehensive income loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(ii) Texas margin tax:

Effective January 1, 2007, the state of Texas enacted an annual franchise tax known as the Texas margin tax, which is equal to 1% of the lesser of: (a) 70% of a taxable entity's revenue; or (b) 100% of total revenue less, at the election of the taxpayer: (i) cost of goods sold; or (ii) compensation. A provision for the margin tax owing has been recorded in the consolidated statements of operations and comprehensive income (loss).

(g) Foreign currency translation:

The accounts of foreign balances and transactions are translated into USD as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect at the consolidated statement of financial position date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenue and expense items (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange prevailing at the transaction date.

Gains and losses arising from translation of foreign currency are included in the determination of net income (loss).

3. MATERIAL ACCOUNTING POLICIES (Continued)

(h) Earnings per share:

The Company presents basic earnings per share data for its common shares by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method, whereby the proceeds assumed to be received on the exercise of dilutive options, warrants, and similar instruments are used to hypothetically repurchase common shares at the average market price for the period.

Instruments that would be anti-dilutive are excluded from the diluted earnings per share calculation. For the period ending March 31, 2026, 203,329 RSUs outstanding were excluded on this basis. For the year ended December 31, 2025, all previously outstanding stock options expired during the year.

(i) Share-based expense:

The Company has a stock option plan, restricted share unit plan, and deferred share unit plan, which are described in Note 10. The Company grants equity-settled share-based awards to directors, officers and employees, and consultants. Share-based expense to employees is measured at the fair value of the equity instruments at the grant date. The fair value of share options is measured using the Black-Scholes option pricing model. Restricted and deferred share units are measured using the fair value of the shares on the grant date. The share-based expense to employees is recognized over the vesting period using the graded vesting method.

Fair value of share-based expenses for non-employees is recognized and measured at the date the good or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based expense is measured at the fair value of the equity instrument issued.

For both employees and non-employees, the fair value of equity-settled share-based expense is recognized on the consolidated statements of operations and comprehensive income loss, with a corresponding increase in reserves. The amount recognized as expense is adjusted to reflect the number of awards expected to vest. Consideration received on the exercise of stock options is recorded in capital stock and the related share-based expense in reserves is transferred to capital stock. When restricted share units ("RSUs") are settled in shares, the recorded fair value is transferred from reserves to capital stock.

For both employees and non-employees, the fair value of cash-settled RSUs is recognized as share-based expense, with a corresponding increase in RSU liability over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash-settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the RSU liability is reduced by the cash payout.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(i) Share-based expense (continued):

After the initial grant of RSUs, the Company may determine that equity-settled awards should be treated as cash-settled going forward. In this instance, the change is accounted for as a modification of the original awards. On the date of modification, a liability is recognized based on the fair value of the vested awards to date. A corresponding reduction in reserves is recognized only to the extent of the fair value of the original awards. Any incremental fair value of the cash-settled award over the equity-settled award on modification date is recognized immediately in share-based expense.

(j) Capital stock:

Proceeds from the exercise of stock options and warrants are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Any previously recorded share-based expense included in the share-based expenses reserve is transferred to capital stock on exercise of options and warrants. Capital stock issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock, and any related amount recorded in warrants reserve is transferred to capital stock.

Canadian dollar denominated share purchase warrants are classified as a derivative warrant liability under the principles of IFRS 9 *Financial Instruments* (Note 10). As the exercise price of the share purchase warrant is fixed in Canadian dollars and the functional currency of the Company is the USD, the share purchase warrants are considered a derivative liability in accordance with IAS 32 *Financial Instruments: Presentation* as a variable amount of cash in the Company's functional currency will be received upon exercise. These types of share purchase warrants are recognized at fair value using an option pricing model at the date of issue. Share purchase warrants are initially recorded as a liability at fair value with any subsequent changes in fair value recognized in profit or loss. Upon exercise of the share purchase warrants with exercise prices in a currency other than the Company's functional currency, the share purchase warrants are revalued at the date of exercise and the total fair value of the exercised share purchase warrants is reallocated to capital stock. The proceeds generated from the payment of the exercise price are also allocated to equity. There were no warrants outstanding as at March 31, 2026.

(k) Financial instruments:

(i) Financial assets:

Initial recognition and measurement

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued):

(i) Financial assets (continued):

A financial asset is measured at amortized cost if it meets the conditions that: i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are carried in the consolidated statements of financial position at fair value with changes in fair value therein, recognized in the consolidated statements of operations and comprehensive income loss. The Company classifies cash as measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance. The Company classifies accounts receivable, prepaid expenses and deposits as measured at amortized cost.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities:

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued):

(ii) Financial liabilities (continued):

Amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method. The Company classifies accounts payable and accrued liabilities, income tax payable and lease liabilities as measured at amortized cost.

Fair value through profit or loss (“FVTPL”)

A financial liability measured at FVTPL is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company classifies derivative warrant liability and RSU liability as measured at FVTPL.

Derecognition

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive income loss.

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

(l) Leases:

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset (“ROU asset”), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

IFRS 16 *Leases*, provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(l) Leases (continued):

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss in the period in which they are incurred.

The ROU assets are presented within “Property, plant and equipment” and the lease liabilities are presented in “Lease liability” on the consolidated statements of financial position.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(m) Research and development:

The Company incurs costs on activities that relate to research and development of new products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral, including technical and economic feasibility. Development costs are capitalized only if the expenditures can be reassured reliably, the product or process is technically and commercially feasible, future economic benefits, including alternative use, are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Deferred development costs are amortized over the life of related commercial production, or in the case of serviceable property and equipment, are included in the appropriate property group and are depreciated over the estimated useful life. As at March 31, 2026, the Company has capitalized \$1 (Dec 31, 2025 - \$1) of research and development costs as part of intellectual property (Note 8). The Company applies for the Canada Revenue Agency Scientific Research and Experimental Development (CRA SRED) tax credit and recognizes the credit as a tax asset in the year in which it is received.

(n) Provisions and contingent liabilities:

The Company had no material commitments for capital expenditures, leases (beyond those recognized), purchase obligations, guarantees or other contractual arrangements requiring disclosure. Provisions for losses arising from claims, litigation and other sources are recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reasonably estimated. Provisions are adjusted as additional information becomes available or circumstances change. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. No provisions have been recognized or contingent liabilities disclosed in these consolidated financial statements in respect of the above for the period ended March 31, 2026 and the year ended December 31, 2025.

(o) Comprehensive (Loss) Income:

The Company includes and classifies in comprehensive (loss) income unrealized gains and losses arising from foreign currency translation adjustments and is also included in accumulated other comprehensive income (loss) in the Statement of Changes in Equity. For each of the periods presented, unrealized gains and losses from foreign currency translations were not material and accordingly, no activity is shown.

4. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

The Company's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to meet its strategic goals.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. There have been no changes to the Company's approach to capital management during the twelve months ended December 31, 2025. Management reviews the capital structure on a regular basis to ensure the above objectives are met. The Company is not subject to externally imposed capital requirements.



5. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, accounts receivable, accounts payable and income tax payable, as their carrying values approximate their fair values due to their short-term nature. The RSU liability is classified as level 1 as its value is based on the market price of the Company's common shares. The lease liability is classified as level 3.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is held with major Canadian and US financial institutions and the Company's concentration of credit risk for cash and maximum exposure thereto is \$209,459 (2025 - \$399,375).

The Company considers its cash deposits to present low credit risk. The majority of cash balances are held with regulated financial institutions whose deposits are eligible for coverage under the Federal Deposit Insurance Corporation ("FDIC") in the United States and the Canada Deposit Insurance Corporation ("CDIC") in Canada. As the Company's total cash balance of \$209,459 is within the standard coverage limits of both schemes, substantially all of the cash balance is expected to be protected under applicable deposit insurance, significantly mitigating the Company's exposure to credit loss on cash.

With respect to its accounts receivable, the Company assesses the credit ratings of all customers and maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. The Company's credit risk with respect to customers' accounts receivable and maximum exposure thereto is \$831,106 (Q1:2025 - \$1,168,524). The Company's concentration of credit risk for accounts receivable with respect to its significant customers is as follows: Customer A is \$533,622 (Q1:2025 - \$570,896), Customer B is \$36,123 (Q1:2025 - \$13,668), Customer C is \$35,488 (Q1:2025 - \$125,057), and Customer D is \$52,238 (Q1:2025 - \$56,898) (Note 13).

To reduce the credit risk of accounts receivable, the Company regularly reviews the collectability of the customers' accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. The Company's aging of customer accounts receivable, excluding goods and services tax receivable, at March 31, 2026 and December 31, 2025 is as follows:

	March 31, 2026	March 31, 2025
Current	\$713,657	\$746,696
1 – 60 days	125,765	413,647
61 days and over	(8,317)	8,181
	\$831,106	\$1,168,524

5. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

At March 31, 2026, the Company has \$209,459 (2025 - \$399,375) of cash to settle current liabilities of \$1,259,078 (2025 - \$777,103) consisting of the following: accounts payable and accrued liabilities of \$1,109,977 (2025 - \$628,002), income tax payable of \$92,104 (2025 - \$92,104), the current portion of lease liability of \$56,997 (2025 - \$56,997), and RSU liability of \$0 (2025 - \$0). All payables classified as current liabilities are due within a year. The amount of the Company's remaining undiscounted contractual maturities for the lease liability is approximately \$Nil (2025 - \$15,948) due within one to three years (Note 9).

During the three months ended March 31, 2026, the Company had drawn down \$250,000 and has \$750,000 available on the line of credit. Amounts drawn on the line of credit bear interest at the Wall Street Journal prime rate (WSJ Prime Rate) plus 1.00%. At December 31, 2025, the WSJ Prime Rate was 6.75%. The line of credit is secured by a general security agreement over the Company's assets.

(c) Market risk:

The significant market risks to which the Company could be exposed are interest rate risk and currency risk.

(i) Interest rate risk:

Interest rate risk is the risk that the Company's fair value or future cash flows may fluctuate as a result of changes in market interest rates. As at March 31, 2026 and December 31, 2025, the Company is not exposed to significant interest rate risk. The Company's exposure is limited to its line of credit, which bears interest at a variable rate based on the WSJ Prime Rate, as described above. Management does not believe that fluctuations in interest rates would have a material impact on the Company's financial position or results of operations.

5. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (continued):

(ii) Currency risk:

The Company is exposed to currency risk to the extent expenditures incurred or funds received, and balances maintained by the Company are denominated in Canadian dollars (“CAD”). The Company does not manage currency risk through hedging or other currency management tools.

As at March 31, 2026 and December 31, 2025, the Company had the following net monetary assets (liabilities) denominated in CAD (amounts presented in USD):

	March 31, 2026	December 31, 2025
Cash	\$8,271	\$8,607
Accounts receivable	4,890	7,320
Accounts payable and accrued liabilities	(26,663)	(72,945)
	\$(13,502)	\$(57,018)

Based on the above, assuming all other variables remain constant, a ~9% (2025 - 9%) weakening or strengthening of the USD against the CAD would result in approximately \$1,215 (2025 - \$5,132) foreign exchange loss or gain in the consolidated statements of operations and comprehensive income loss. While movements in foreign exchange rates benefited from the results for the period ending March 31, 2026, such impacts are inherently volatile and may vary significantly from period to period. Adverse movements in exchange rates could result in material foreign exchange losses in future periods.

(d) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to other price risk.



6. INVENTORY

	March 31, 2026	December 31, 2025
Finished goods	\$82,898	\$94,022
Raw materials and supplies	2,178,670	2,112,748
	\$2,261,568	\$2,206,770

For the period ended March 31, 2026, included in cost of goods sold is \$804,567 (March 31, 2025 - \$1,399,374) of direct material costs recognized as expense.

Inventory Write-Off at Year end FY2025

Starting FY2025, inventory write-offs totaling \$46,232 were included in the cost of goods sold, whereas in prior years this amount was accounted for separately in other expenses.

As part of its December 31, 2025 year-end inventory review, the Company assesses all stock-keeping units ("SKUs") against current and forecast production requirements to identify items that are unlikely to be consumed within a reasonable timeframe or that are otherwise impaired. During the year ended December 31, 2025, this review identified certain raw materials and components with a carrying value of \$46,232 (2024 — \$588,505; 2023 — \$214,225) that were determined to have a net realizable value of \$nil and were accordingly written off and recognized as an expense in the consolidated statement of operations and comprehensive income.

The write-offs arose from two categories:

- (i) Usage-based obsolescence:
Certain SKUs were identified as having no planned usage within the next twelve months based on current production schedules and customer order forecasts. These items relate to components that are specific to legacy valve configurations or product lines that the Company no longer actively produces. As there is no alternative internal use and no active resale market for these specialized components, management concluded that their net realizable value (NRV) is nil.
- (ii) Excess quantity on hand:
The Company operates in the rail tank car equipment industry, which is characterized by long product life cycles typically spanning a decade or more. Given this business model, the Company considers a ten-year forward consumption horizon to be a reasonable basis for assessing the recoverability of inventory quantities. Commencing in the year ended December 31, 2025, the Company introduced an additional criterion to its inventory review whereby SKUs with a quantity on hand exceeding twenty years of supply relative to current consumption rates are identified for write-off assessment. This criterion will be applied consistently in all future periods as part of the Company's ongoing NRV review process.

Certain SKUs identified under this criterion were written off in the current year on the basis that quantities extending beyond a twenty-year supply horizon cannot reasonably be expected to be consumed or sold in the ordinary course of business. The extended holding period required to deplete these quantities, together with the associated carrying costs and the risk of technological change or product configuration updates rendering the materials unusable, results in a net realizable value of nil. The Company has determined that the difference between applying a twenty-year and a ten-year threshold for purposes of this assessment is not material to the consolidated financial statements.

Kelso Technologies Inc.

Notes to Consolidated Interim Financial Statements
For the three months ended March 31, 2026 and 2025
(Unaudited – Prepared by Management)
(Expressed in US Dollars)

**7. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land	Building	Leasehold Improvements	Production Equipment	Prototypes	ROU Asset	Total
Balance, December 31, 2023	\$12,558	\$2,963,983	\$ 43,715	\$1,032,070	\$3,925,375	\$ 316,470	\$8,294,171
Additions	-	-	-	69,245	758,454	219,408	1,047,107
Disposals	-	-	-	(134,121)	-	-	(134,121)
Lease reduction (Note 9)	-	-	-	-	-	(162,238)	(162,238)
Impairment (Note 16)	-	-	-	(55,047)	(585,843)	-	(640,890)
Transfer to assets held for sale (Note 16)	-	-	-	(10,425)	(79,294)	-	(89,719)
Balance, December 31, 2024	\$12,558	\$2,963,983	\$ 43,715	\$ 901,722	\$4,018,692	\$ 373,640	\$8,314,310
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	(35,563)	-	(8,558)	(44,121)
Balance, December 31, 2025	\$12,558	\$2,963,983	\$ 43,715	\$ 866,159	\$4,018,692	\$ 365,082	\$8,270,189
Additions	-	126	-	-	-	-	126
Disposals	-	-	-	-	-	-	-
Balance, March 31, 2026	\$12,558	\$2,964,109	\$ 43,715	\$ 866,159	\$4,018,692	\$ 365,082	\$8,270,315
Accumulated Amortization							
Balance, December 31, 2023	\$ -	\$ 965,163	\$ 43,715	\$ 819,906	\$3,010,363	\$ 299,848	\$5,138,995
Amortization	-	78,762	-	48,557	1,008,328	74,001	1,209,648
Disposals	-	-	-	(79,878)	-	(117,004)	(196,882)
Balance, December 31, 2024	\$ -	\$1,043,925	\$ 43,715	\$ 788,585	\$4,018,691	\$ 256,845	\$6,151,761
Amortization	-	78,636	-	-	-	65,623	144,259
Disposals	-	-	-	(15,677)	-	-	(15,677)
Balance, December 31, 2025	\$ -	\$1,122,561	\$ 43,715	\$ 772,908	\$4,018,691	\$ 322,468	\$6,280,343
Amortization	-	19,815	-	5,247	-	19,866	44,928
Disposals	-	-	-	-	-	-	-
Balance, March 31, 2026	\$ -	\$1,142,376	\$ 43,715	\$ 778,155	\$4,018,691	\$ 342,334	\$6,325,271
Carrying Value							
December 31, 2024	\$12,558	\$1,920,058	\$ -	\$ 113,137	\$ 1	\$ 116,795	\$2,162,549
December 31, 2025	\$12,558	\$1,841,422	\$ -	\$ 93,251	\$ 1	\$ 42,614	\$1,989,845
March 31, 2026	\$12,558	\$1,821,733	\$ -	\$ 88,004	\$ 1	\$ 22,748	\$1,945,044

Included in cost of goods sold is \$21,196 (2025 - \$21,196) of amortization related to property, plant and equipment.
Included in amortization expense is \$3,741 (2025 - \$3,741) of amortization related to property, plant and equipment.
Included in research expense is \$Nil (2025 - \$Nil) of amortization related to property, plant and equipment.



8. INTANGIBLE ASSETS

Cost	Patent	Rights	Intellectual Property	Total
Balance, December 31, 2023	\$ 40,840	\$ 672,959	\$ 471,311	\$ 1,185,110
Additions	-	-	-	-
Impairment (Note 16)	-	-	(471,310)	(471,310)
Balance, December 31, 2024	\$ 40,840	\$ 672,959	\$ 1	\$ 713,800
Accumulated Amortization				
Balance, December 31, 2023	\$ 40,840	\$ 672,959	\$ -	\$ 713,799
Amortization	-	-	-	-
Balance, December 31, 2024 and December 31, 2025	\$ 40,840	\$ 672,959	\$ -	\$ 713,799
Carrying Value				
December 31, 2025 and March 31, 2026	\$ -	\$ -	\$ 1	\$ 1

During the year ended December 31, 2010, the Company entered into an agreement to acquire a patent related to their manway securement systems. The Company is obligated to pay a 5% royalty in accordance with the agreement.

On November 10, 2016, the Company entered into a technology development agreement to acquire all intellectual property rights (the “Products”) of G&J Technologies, Inc. (the “Vendor”). The Vendor also entered into a consulting agreement with the Company for a fee of \$10,000 per month. The Company is also required to pay a royalty to the Vendor of 2.5% of the net sales earned by the Company, to be paid within 30 days of the end of each calendar quarter. As at December 31, 2025, the Company has not earned any revenue from the sale of the Products.

On March 3, 2021, the Company terminated the technology development agreement, including the consulting agreement for \$10,000 per month. The Company will still be liable for the 2.5% royalty. This termination was in the arbitration process and a judgment was rendered on April 25, 2023, awarding G&J Technologies Inc. \$465,360 for termination fees, asset payment issued and legal fees and recorded in termination settlement. All amounts awarded were paid during the year ended December 31, 2023.

On October 25, 2021, the Company entered into a technology services agreement with a third-party developer (the “Agreement”) to further develop its internal intellectual property related to the active suspension control system for no road vehicles. This agreement was terminated by the Company in mid 2024. The Agreement consists of total payments of \$579,482 (\$810,000 CAD), (subject to milestones being met). Intellectual property developed under the Agreement will be the property of the Company and certain background technology of the developer will be licensed by the Company for the purpose of manufacturing and selling the related products. The royalty payment for the license will be \$19,316 (\$27,000 CAD) per year for a period of 10 years (the “License Fee”) with the first-year fee waived and the second year discounted 50%. If the Company purchases a minimum of 10 control systems designed under the Agreement in any year, the License Fee for that year will be waived. The Company may receive an unrestricted license to use the background technology of the developer at any time by paying the cumulative remaining License Fees plus a one-time payment of \$35,770 (\$50,000 CAD). As at March 31, 2026 and December 31, 2025, the Company had a deposit of \$nil (2025 - \$nil) to be applied over the term of the Agreement.

9. LEASE LIABILITY

The Company has a lease agreement for its warehouse space in West Kelowna, British Columbia.

The continuity of the lease liability for the period ended March 31, 2026 and December 31, 2025 are as follows:

Lease liability	Total
Lease liability, December 31, 2024	\$115,903
Lease payments	(42,958)
Lease liability, December 31, 2025	\$72,945
Lease payments	(15,948)
Lease liability, March 31, 2026	\$56,997
Current portion	\$56,997
Long-term portion	-
	\$56,997

During the year ended December 31, 2024, the Company entered into a new lease, commencing February 1, 2024, for a period of three years. The new lease resulted in an increase to the lease liability of \$383,391. On September 6, 2024, the lease was renegotiated to reduce the lease space in use, which resulted in a lease liability reduction of \$178,025. On April 7, 2025, the company subleased the remaining space but still retains the lease obligations in accordance with accounting standards. The Company's sublease agreement is structured so that the monthly payment received from the subtenant matches the Company's own monthly lease obligation. This arrangement ensures that the sublease income offsets the contractual fixed amount required under the original lease, resulting in a net-zero effect on monthly cash flow.

10. CAPITAL STOCK

Authorized:

Unlimited Class A non-cumulative, preferred shares without par value, of which 5,000,000 are designated Class A, convertible, voting, preferred shares. No preferred shares have been issued.

Unlimited common shares without par value.

(a) Common shares:

There were no share issuances during the three months ended March 31, 2026.

During the twelve months ended December 31, 2025, the Company issued 139,999 common shares at fair market value on the dates of the award grants for total consideration of \$13,456. These shares were issued pursuant to RSU agreements.

10. CAPITAL STOCK (Continued)

(b) Stock options:

The Company has a stock option plan (the “Plan”) available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the Company is authorized to issue options to purchase an aggregate of up to 10% of the Company's issued and outstanding common shares. Each option can be exercised to acquire one common share of the Company. The exercise price for an option granted under the Plan may not be less than the market price at the date of grant less a specified discount dependent on the market price.

Options to purchase common shares have been granted to directors, employees and consultants as follows:

Exercise Price	Expiry Date	December 31, 2025	Granted	Exercised	Forfeited/ Expired	March 31, 2026
-	-	-	-	-	-	-
Total outstanding		-	-	-	-	-
Total exercisable		-	-	-	-	-

Exercise Price	Expiry Date	December 31, 2024	Granted	Exercised	Forfeited/ Expired	December 31, 2025
\$0.76(USD)	February 11, 2025	200,000	-	-	(200,000)	-
0.75(USD)	August 18, 2025	750,000	-	-	(750,000)	-
Total outstanding		950,000	-	-	(950,000)	-
Total exercisable		950,000	-	-	(950,000)	-

A summary of the Company's stock options as at March 31, 2026 and December 31, 2025 and changes for the periods then ended are as follows:

	Number	Weighted Average Exercise Price
Outstanding and exercisable, December 31, 2024	950,000	\$0.75
Expired	(200,000)	\$0.76
Expired	(750,000)	\$0.75
Outstanding and exercisable, December 31, 2025	-	-
Outstanding and exercisable, March 31, 2026	-	-

The weighted average contractual life for the remaining options at March 31, 2026 and December 31, 2025 is Nil years.



10. CAPITAL STOCK (Continued)

(b) Stock options (continued):

Share-based expense

Share-based expense of \$Nil (2024 - \$Nil) was recognized in the three months ended March 31, 2026 for stock options.

(c) Restricted share units:

On April 28, 2021, the Company implemented a Restricted Share Unit Plan (the “RSU Plan”). Pursuant to the RSU Plan, the Company will grant RSUs to directors, officers, employees, and consultants for services as approved from time to time by the Board. The maximum number of common shares made available for issuance pursuant to the RSU Plan shall not exceed 5% of common shares issued and outstanding and shall not exceed 10% of the common shares issued and outstanding less any common shares reserved for issuance under all other share compensation arrangements. The vesting terms, settlement, and method of settlement of the RSUs granted under the RSU Plan will be determined by the Board of Directors.

A summary of the Company’s RSUs as at March 31, 2026 and December 31, 2025 and changes for the periods then ended, are as follows:

Outstanding December 31, 2024	541,657
Settled	(139,999)
Repurchased	(198,329)
<u>Outstanding December 31, 2025 & March 31, 2026</u>	<u>203,329</u>

During the three months ended March 31, 2026 and the year ended December 31, 2025, the Company did not grant any RSUs.

During the year ended December 31, 2025, the Company repurchased 198,329 (2024 – 251,667, 2023 – 130,850) equity-settled RSUs with a fair value of \$34,250 (2024 - \$38,655, 2023 - \$66,073) through a cash payment of \$31,732 (2024 - \$32,625, 2023 - \$25,288) based on an average share price of \$0.16 (2024 - \$0.13, 2023 - \$0.19) on vesting date and recorded a gain on repurchase of RSUs of \$2,518 (2024 - \$6,030, 2023 - \$40,785).

(c) Restricted share units (continued):

For the three months ended March 31, 2026 and the year ended December 31, 2025, the RSU liability decreased to \$0 (2024 - \$18,730) to recognize the vested portion of previously granted and outstanding RSUs. The 203,329 RSUs have not vested as of March 31, 2026 and have a weighted average life of 0.6 years and are insignificant in value.

In connection with the RSUs awarded, the Company recognized share-based expense of \$13,969 (2024 - \$165,510, 2023 - \$129,490) for the year ended December 31, 2025.



10. CAPITAL STOCK (Continued)

(d) Deferred share units:

On April 28, 2021, the Company implemented a Non-Employee Directors Deferred Share Unit Plan (the “DSU Plan”). Pursuant to the DSU Plan, non-employee directors may elect to receive deferred share units (“DSUs”) in lieu of a cash payment of up to 50% of their annual base compensation determined by the Board. The maximum number of common shares made available for issuance pursuant to the DSU Plan shall not exceed 2% of the common shares issued and outstanding and shall not exceed 10% of the common shares issued and outstanding less any common shares reserved for issuance under all other share compensation agreements. At March 31, 2026 and December 31, 2025, no DSUs have been granted to non-employee directors.

11. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company’s directors and other members of key management, being the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer who have the authority and responsibility for planning, directing and controlling the activities of the Company consist of the following amounts:

	March 31, 2026	March 31, 2025
Management Compensation	\$194,077	\$196,077
Directors' fees	\$28,750	\$28,750
	\$222,827	\$224,827

12. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2026	March 31, 2025
Proceeds from sale of equipment included in accounts receivable	\$21,192	\$35,671
Interest Paid	\$2,131	\$4,604

13. SIGNIFICANT CUSTOMERS

The following table represents sales to individual customers exceeding 10% of the Company's revenues:

	March 31, 2026	March 31, 2025
Customer A	\$1,095,584	\$1,131,742
Customer B	\$88,575	\$48,130
Customer C	\$103,242	\$280,975
Customer D	\$77,834	\$93,908

The customers are major US corporations who have displayed a pattern of consistent timely payment of amounts owing from sales.

14. EMPLOYEE BENEFITS

Total employee benefit expenses, including salary and wages, management compensation, share-based expense and benefits for the three months ended March 31, 2026 amounted to \$634,359 (Q1:2025 - \$663,838).

15. SEGMENT INFORMATION

Historically, the Company operated two reportable segments. During the year ended December 31, 2024, the Company ceased operations in its KXI segment, which has been presented as a discontinued operation (Note 16).

As a result, during the three months ended March 31, 2026 and the year ended December 31, 2025, the Company operated one reportable business segment, with operations and long-term assets located in the United States. This segment consists of the design, production, and distribution of proprietary products for the rail sector. As at March 31, 2026, long-term assets attributable to this segment totaled \$1,945,043 (2025 – \$1,989,844).

Prior to the cessation of operations, the KXI segment was engaged in the development of a heavy-duty suspension control system for off-road vehicles, with assets located in Canada. As at March 31, 2026, long-term assets of \$2 related to this discontinued activity (2025 – \$2).

16. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year ended December 31, 2024, the Company ceased operations of its KXI HD control system (within its wholly-owned subsidiary, KIQ X Industries ("KIQ X")). Management determined the operations of KIQ X to have met the definition of discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Consequently, the operations of KIQ X have been classified separately from the Company's continuing operations to show a loss from discontinued operations as a single line in the consolidated statements of operations and comprehensive income loss.



16. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

As a result of ceasing operations within KIQ X, indicators of impairment existed leading to a test of the recoverable amount of the KIQ X cash-generating unit, which consists of equipment, prototypes and intangible assets. A value-in-use calculation is not applicable as the Company does not have any expected cash flows from using the assets at this stage. In estimating the fair value less costs of disposal, management estimated a recoverable amount of \$NIL representing no pending sale transactions as at March 31, 2026 and December 31, 2025. As this valuation technique requires management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy. There were no instruments transferred in or out of Level 3 during the period ending March 31, 2026 and fiscal year ended December 31, 2025.

For the three months ended March 31, 2026 and 2025 the loss from discontinued operations relate to the following:

	March 31, 2026	March 31, 2025
Expenses		
Accounting and legal	-	18,125
Office and administration	-	12,776
Foreign exchange loss (gain)	-	43,187
Amortization	19,865	21,975
Loss before the following	(19,865)	(96,063)
Sale of Property Plant & Equipment	-	3,418
Gain on sublease of ROU asset lease	15,948	-
Net Loss from Discontinued Operations	(3,917)	(92,645)
Cash flows		
Operating activities	15,948	(164,456)
Investing activities	-	25,334
Financing activities	(15,948)	(6,829)
Cash flows used in discontinued operations	-	(145,951)

17. INCOME TAXES

The Company has \$8,450,000 in non-capital losses in Canada that relate to discontinued operations. These losses may be applied against future taxable income within KIQ X, if any, and expire between 2039 and 2045. As of March 31, 2026 and December 31, 2025, the Company had current income tax obligations of \$92,104 in the United States, consisting of federal income tax and Texas franchise tax.

17. INCOME TAXES (Continued)

The tax effect items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2025 and 2024 are as follows:

	December 31, 2025	December 31, 2024
Deferred income tax assets (liabilities)		
Non-capital loss carry-forwards	\$54,777	\$110,785
Deferred income tax assets – investment credits	\$160,902	\$0
Excess of carrying value over tax value of property, plant and equipment	-\$54,777	-\$110,785
Total net deferred tax asset (liability)	\$160,902	\$0

Significant unrecognized tax benefits and unused tax losses for which no deferred tax assets is recognized as of December 31, 2025 and 2024 are as follows:

	December 31, 2025	December 31, 2024
Non-capital losses carried forward	\$ 2,378,160	\$ 2,631,428
Intangible assets	235,980	235,980
Lease liability	20,233	31,294
Unrecognized deductible temporary differences	\$ 2,634,373	\$ 2,898,702

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate to loss before income taxes as follows:

	2025	2024
Pretax Income (loss)	\$380,838	-\$4,622,297
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	102,826	-1,248,020
Items not deductible for income tax purposes	17,271	413,516
Under provision of taxes in prior years	-100,730	63,706
Change in timing differences	-12,621	79,743
Impact of foreign exchange on tax assets and liabilities	-20,958	59,914
Investment Credits (SRED)	-160,902	0
Unused tax losses and tax offsets not recognized	86,755	847,064
Income tax expense (recovery)	-88,359	215,923
Texas margin tax and branch tax	21,800	20,530
Income tax expense (recovery)	-\$66,559	\$236,453

18. SUBSEQUENT EVENT

On April 16, 2026, the Company announced the following changes to its senior leadership and Board composition:

Frank Busch resigned from his positions as President, Chief Executive Officer, and Director of the Company. Mr. Busch has agreed to remain available to the Company in an independent consulting capacity during the transition period.

Concurrent with Mr. Busch's resignation, the Board of Directors effected the following appointments:

- Jesse Crews, previously serving as Lead Director, was appointed Chief Executive Officer. Mr. Crews will lead the Company's Office of the CEO, supported by Amanda Smith, Chief Operating Officer, and Sameer Uplenchwar, Chief Financial Officer.
- Mark Temen, Independent Director and Audit Committee Chair, was appointed Lead Director.
- Paul Cass, former Lead Director, was appointed as an Independent Director.

These leadership changes constitute a non-adjusting subsequent event under IAS 10, *Events after the Reporting Period*, as they arose after the reporting date of March 31, 2026 and do not affect the recognition or measurement of amounts reflected in these financial statements. The Company has confirmed that this transition does not alter its previously disclosed financial guidance or strategic direction.