KELSO TECHNOLOGIES INC.

ANNUAL INFORMATION FORM

FOR THE TRANSITION YEAR BEING THE FOUR MONTH PERIOD ENDED DECEMBER 31, 2012
AND FOR THE FINANCIAL YEAR ENDED AUGUST 31, 2012

June 20, 2013

TABLE OF CONTENTS

ANNUAL INFORMATION FORM

ITEM 1 EXPLANATORY NOTES AND CAUTIONARY STATEMENTS

1.1 Explanatory Notes

In this Annual Information Form ("**AIF**"), references to the "Company", "Kelso", "we" or "our" mean Kelso Technologies Inc. and include its wholly-owned subsidiaries, Kelso Technologies (USA) Inc. ("**Kelso USA**") and Kelso Innovative Solutions Inc. ("**Kelso Innovative**"), unless the context otherwise requires.

All information contained in this AIF is as of December 31, 2012, unless otherwise indicated. Effective September 4, 2012, the Company changed its financial year-end from August 31st to December 31st. Information is included in this AIF for the transition year being the four month period ended December 31, 2012 and, where indicated, for the financial year ended August 31, 2012.

The Company uses the U.S. dollar as its functional and reporting currency. References to "$" refer to U.S. currency, unless specified otherwise.

1.2 Forward-Looking Information

Certain statements in this AIF and the documents incorporated herein by reference are forward-looking statements. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Often, but not always, forward looking statements can be identified by the use of words such as "will", "aims', "proposes" "plans", "expects", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative and grammatical variations) of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements in this AIF and the documents incorporated herein by reference reflect management's views as at the date specified in the document in which they are contained and are based on certain assumptions and speak only as of the date specified in the document in which the statements are contained.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These include but are not limited to the economic condition of the railroad industry, which is affected by numerous factors beyond the Company's control including slow sales cycles, the existence of present and possible government regulation and competition. Other factors include that the full scale commercialization of the Company's advanced technologies may involve slow customer start-up adoption rates, uncertainty of profitable revenue levels, general market circumstances and the need to continue to access additional development capital from internal or external sources to continue financially healthy operations. See "Description of Business – Risk Factors" in this AIF for a discussion of additional risk factors affecting the Company.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that 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.

Forward-looking statements are based upon the beliefs, estimates and opinions of the Company's management at the time they are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change unless required by law. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, undue reliance should not be placed on forward-looking statements.

1.3 Documents Incorporated by Reference

The following documents (collectively, the "**Referenced Documents**"), which have been filed with Canadian securities regulatory authorities on SEDAR at www.sedar.com are incorporated into this AIF by reference:

(a) audited consolidated statements of financial position of the Company as at December 31, 2012 and August 31, 2012, and the statements of operations and comprehensive loss, changes in equity and cash flows for the four months ended December 31, 2012 and the year ended August 31, 2012 (collectively, the "**December 2012 Financial Statements**");

(b) management discussion and analysis of the Company dated April 5, 2013 for the four months ended December 31, 2012;

(c) audited consolidated statements of financial position of the Company as at August 31, 2012, August 31, 2011 and September 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended August 31, 2012 and August 31, 2011 (collectively, the "**August 2012 Financial Statements**");

(d) management discussion and analysis of the Company dated December 14, 2012 for the financial year ended August 31, 2012; and

(e) "Statement of Executive Compensation", "Director Compensation" and "Approval of Stock Option Plan" sections within the Management Information Circular of the Company dated May 7, 2013.

ITEM 2 CORPORATE STRUCTURE

2.1 Name, Address and Incorporation

The Company was incorporated as "Kelso Resources Ltd." pursuant to the *Company Act* (British Columbia) on March 16, 1987. On July 21, 1994, the Company changed its corporate name to "Kelso Technologies Inc." The Company is currently organized pursuant to the *Business Corporations Act* (British Columbia) ("**BCBCA**") which replaced the *Company Act* (British Columbia) in 2004.

The Company's registered office is located at Suite 800 - 885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The Company's corporate head office is located at 7773 – 118A Street, North Delta, British Columbia V4C 6V1.

In February 2007, the Company replaced its original Articles with new Articles to reflect the adoption of the *BCBCA*. On May 13, 2010, the Company consolidated its share capital on the basis of one new common share in the capital of the Company (a "**Common Share**") for seven old Common Shares. This consolidation was approved by a special resolution of the shareholders of the Company passed February 5, 2010. At its annual general and special meeting scheduled for June 5, 2013, the Company intends to seek shareholder approval of certain amendments to the Articles of the Company to include, among other things, advance notice provisions. Advance notice provisions provide a framework whereby the Company can fix a deadline for submission of director nominations by shareholders prior to any annual or special meeting of shareholders and can set forth the information regarding director nominees that a shareholder must include in their notice to the Company for such notice to be in proper written form.

The Common Shares are publicly traded on the TSX Venture Exchange (the "**TSXV**") under the symbol "KLS", and on the U.S. over-the-counter market ("**OTCQX**") under the symbol "KEOSF".

2.2 Inter-corporate Relationships

The Company operates in conjunction with its two wholly-owned subsidiaries Kelso USA and Kelso Innovative. The Company owns 100% of the voting securities of each of its subsidiaries. Neither subsidiary has a class of restricted securities. Kelso USA was incorporated on August 3, 2005 in the State of Nevada. Kelso Innovative was incorporated on June 20, 2012 in the State of Nevada.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

3.1 General

The Company is a railroad equipment supplier that produces and sells proprietary tank car components used in the safe loading, unloading and containment of hazardous materials during transport. Products are specifically designed to provide economic and operational advantages while reducing the potential effects of human error and environmental harm during the transport of hazardous materials.

The Company currently offers approximately 34 products. The key products that the Company offers include a series of external constant force spring pressure relief valves (each, an "**EPRV**") for pressure management; a revolutionary new manway securement system trademarked the "Kelso Klincher®" (the "**KKM**"); and Kelso Tiger Tube™ - Eduction Technology eduction tube (the "**ETS**") products that address the technical requirements of load and unload operations and the containment of hazardous commodities during transport. Products are proprietary and patent protected and designed for use on applications on railroad tank cars but can be modified for use in other markets such as trucking. See "Description of Business – Key Products" for a description of the Company's key products. In addition to current product offerings, Kelso Innovative, the Company's wholly-owned product development enterprise, has been working with key customers on new products to add to the Company's catalogue.

The Company recruited and appointed a new executive management team in April 2010 at which time a commercial business plan was established. In accordance with this strategic plan, the new management team has since consolidated the Company's share capital on the basis of one new Common Share for seven old Common Shares; repaired Kelso's business reputation; gained the confidence of the railroad and investment community; accessed new equity development capital; established a modern state-of-the-art production infrastructure; secured required regulatory approvals; secured product liability insurance; implemented educational marketing initiatives; and steadily grown sales and distribution of products to key North American rail tank car manufacturers and many retrofit/repair businesses.

The Company continues to build a quality brand in the railroad industry based on its reputation to create, develop, engineer and reliably supply "best technology" product solutions that address the demanding technology criteria of our railroad customers. In less than three years, the Company has successfully gained the railroad industry's confidence, approval and their willingness to adopt its products.

3.2 Three Year History

2010

In April 2010, the Company recruited and appointed a new executive management team and put a reorganization plan and a commercial business plan in place.

In May 2010, as part of the reorganization, the Company completed a consolidation of its Common Shares on the basis of seven old Common Shares for one new Common Share. Also in May 2010, the Company completed a non-brokered private placement for gross proceeds of $827,000 by issuing 8,270,000 units at $0.10 per unit. Each unit consisted of one Common Share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one additional Common Share at a price of $0.18 per share until May 25, 2012. All the securities issued in connection with this private placement were subject to a four-month hold period which expired September 25, 2010. The Company paid $27,200 in finder's fees to Canaccord Genuity Corp. and Global Maxfin Capital Corp. in connection with this private placement. On May 26, 2010, the Company entered into an agreement with Barry LaCroix whereby the Company acquired Manhole Cover Patent No. US 7,104,722 B2 from Mr. LaCroix and related technology and intellectual property. This patent expires 2023. See "Material Contracts".

In June 2010, the Company secured exclusive rights to an innovative patented "Kelso Klincher®" Manway Securement System for rail tank cars, other transportation and fixed location applications. KKM is a unique new solution to a serious and persistent problem of leaking manways on rail tank cars. The rail tank car market is actively seeking solutions to this recurring problem. This is being driven by the industry's desire to operate as safely as possible and by the policies and guidelines of regulatory agencies in the United States and Canada that are demanding a dramatic reduction in the number of non-accidental releases.

In September 2010, the Company closed a non-brokered private placement for gross proceeds of $196,112 by issuing 1,153,600 units at a price of $0.17 per unit. Each unit consisted of one Common Share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one additional Common Share at a price of $0.25 per share until August 31, 2012. All the securities issued in connection with this private placement were subject to a four-month hold period which expired on December 31, 2010. The Company paid $14,100 in finder's fees to Canaccord Genuity Corp. in connection with this private placement.

In November 2010, the Company reported that it completed its initial production capability and commenced commercialization initiatives for its KKM. Also in November 2010, the Company announced that it was opening a 4,000 square foot facility in Bonham, Texas to assemble its EPRVs.

In December 2010, the Company closed a non-brokered private placement for gross proceeds of $1,734,500 by issuing 6,938,000 units at a price of $0.25 per unit. Each unit consisted of one Common Share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one additional Common Share at a price of $0.35 per share until December 22, 2012. All the securities issued in connection with this private placement were subject to a four-month hold period which expired on April 23, 2011. The Company paid 8% finder's fees in accordance with TSXV policies and guidelines to various finders in cash and/or common shares in connection with the private placement.

2011

In January 2011, the Company reported that it opened its EPRV assembly facility in Bonham, Texas. The facility was dedicated to the assembly, test and certification of up to 4,000 valves per year. Production capacity can be scaled upward when necessary at this facility with limited additional investment. Also in January 2011, the Company's first production unit of its KKM was successfully installed on an existing rail tank car for fit check and operational performance evaluation. The KKM is a patented revolutionary tank car system designed to replace the out-of-date eye bolt securement systems used in the railroad industry.

In March 2011, the Company received its Class F certification for its production facilities in Bonham, Texas from the Association of American Railroads (the "**AAR**"). The certification, which expires on March 3, 2017, covers the manufacture, recondition, repair, retest, or qualified tank car service equipment.

In June 2011, the Company reported that Kelso USA had substantially completed the first stage of its market introduction of its KKM.

In July 2011, the Company and Kelso USA established their first assembly plant for the KKM with the purchase of a 6,000 square foot building in Bonham, Texas for $129,000. Also in July 2011, the Company closed a non-brokered private placement for gross proceeds of $1,000,000 by issuing 2,000,000 units at a price of $0.50 per unit. Each unit consisted of one Common Share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional Common Share at a price of $0.70 per share until July 25, 2013. All the securities issued in connection with this private placement were subject to a four-month hold period which expired November 26, 2011. The Company paid 8% finder's fees ($87,200) in accordance with TSXV policies and guidelines in connection with the private placement.

In August 2011, the Common Shares began trading on the OTCQX in the U.S. under the symbol "KEOSF".

In October 2011, Kelso USA received a key project order for its AAR-approved 75PSI EPRV and new 165PSI EPRV from one of the largest petroleum companies in the world. The order was valued at approximately $275,000. This order marked the initial implementation of the client's adoption strategies for the Company's innovative products.

2012

In January 2012, the Company reported that its EPRV and KKM were specified by several HAZMAT customers for installation on new rail tank cars scheduled to be built in 2012. These transactions were valued at approximately $3,000,000.

In February 2012, the Company reported that it received additional purchase orders for its EPRVs in excess of $1,000,000. Accordingly, the Company's EPRV product business for 2012 was put in excess of $4,000,000. The key to this business activity was that one of the four major tank car manufacturers ("**OEMs**") designated the Company's EPRV as recommended standard equipment on a series of their railroad tank cars used primarily for ethanol and crude oil transport.

In June 2012, the Company reported that the high performance attributes of a new extension of its EPRV product line, the JS75XL, was successfully verified by an independent engineering test lab in Columbus, Ohio as required by the railroad industry. The JS75XL is one of a number of high performance EPRV products that the Company created to distinguish the enhanced performance capacity of its EPRV products above all other competitive products. On June 20, 2012, Kelso Innovative was incorporated. See "Corporate Structure - Intercorporate Relationships".

In August 2012, the Company reported that its high performance specifications for its new EPRV, the JS75XH/27, were successfully performance tested and confirmed by an independent engineering test lab in Denver, Colorado as required by the railroad industry. The JS75XH/27 joined the JS75XL/5 as the second new EPRV that the Company created to establish new high-performance specifications that meet the new regulatory standards in development for a number of critical HAZMAT applications. The JS75XL/5 meets the new regulatory criteria for insulated/jacketed rail tank cars while the JS75XH/27 meets the new regulatory goals for Package 1 and 2 rail tank cars designed for demanding applications in the transport of crude oil and ethanol.

On September 4, 2012, the Company provided notice that it changed its financial year end from August 31st to December 31st. On September 28, 2012, the Company closed a non-brokered private placement for gross proceeds of US$1,197,000 by issuing 1,995,000 units at a price of US$0.60 per unit. Each unit consists of one Common Share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional Common Share at a price of US$0.80 per share until September 28, 2014. All the securities issued in connection with this private placement were subject to a four-month and a day hold period which expired on January 29, 2013. The Company paid 8% percent finder's fees ($91,414) where applicable in accordance with TSXV policies and guidelines in connection with the private placement.

In October 2012, the Company reported that it received regulatory approval from the AAR for its new heavy-duty, high performance EPRV known as the JS75XH/27 that was successfully tested by independent sources in August 2012. The JS75XH/27 is fully qualified to be commercially utilized in numerous heavy duty HAZMAT applications that include the transport of crude oil and ethanol. The Company also received its Class D (includes Class F) certification for its EPRV and manway production facilities in Bonham, Texas from the AAR. The Company's AAR Class D Registration covers the manufacture, quality control assurance, testing and certification, and recondition, repair, and retest of qualified tank car service equipment. The first shipments of the JS75XH/27 to OEM customers commenced during October 2012. The Company also reported that it has applied for M-1003 certification and has tailored all of its quality assurance programs and processes to that standard.

In November 2012, the Company acquired all proprietary and manufacturing rights from the James Wilson Company of Houston, Texas for their ETS product line for US$65,000. See "Material Contracts". ETS are used in the loading and unloading of highly corrosive chemicals from rail tank cars and road tank trailers. Hydrochloric acid is the largest application for the ETS and a key chemical in hydraulic fracturing and oil sands processing. Growth of production output in the petroleum, natural gas and oil sands industries has fueled increases in demand for new chemical rail tank cars in 2013 and 2014 – a market of interest for Kelso. The Company's ETS is marketed as the "Kelso Tiger Tube™" and sold to the Company's OEM, retrofit and repair customers in conjunction with its EPRV that has been specifically designed for the rigors of acid handling and transport. Kelso Innovative manages the design elements of the ETS. Also in November 2012, the Company expanded its production facility in Bonham, Texas bringing the total to 41,000 square feet of leased premises. The Bonham facility is dedicated to the assembly, testing and certification of up to 400 EPRV per week on a single shift basis. Production capacity can be scaled upward when required. The key significance of Bonham, Texas is that it is within a 150 mile radius of the Company's largest customers.

In December 2012, the Company reported that it increased production capacity to 450 per week including its JS75XH (carbon steel) and JS75XHS (stainless steel) EPRVs that meet the new industry benchmark for tank cars in the ethanol and crude oil sectors. These valves flow at 30,060 scfm which is in excess of the 27,000 scfm minimum flow rate desired by AAR and federal regulators.

2013

In March 2013, the Company announced that it entered into a joint sales and marketing agreement with Bulk Tank Inc., a premier trucking industry supplier, whereby Bulk Tank Inc. will market the Company's trucking product lines to its customer base. Also in Mark 2013, the Company reported that it received AAR approval (AAR Approval Number 079002) for a new 75 PSI pressure relief valve that has the highest flow rating for this pressure rating and mounting size. The new JS75XL fits a 3" tank car nozzle with a 6 ½" nominal mounting bolt circle and has a flow rating of 4,099 scfm. It can also be mounted inside the protective housing on new tank cars.

In April 2013, the Company reported that it successfully completed independent testing of its KKM. This evaluation which confirmed that the KKM is a leading technology product when compared to similar "legacy" technology products currently in use in the industry, is expected to be the last stage of qualification of the KKM for railroad use. The Company intends to move the KKM into commercial production at its production facility in Bonham, Texas.

In June 2013, the Company reported that it has filed a patent application for a new Bottom Outlet Valve ("**BOV**") design for use on new rail tank cars and retrofits of existing rail tank cars. The patent application was filed on June 3, 2013 under a "Non-Publication Request" which keeps the patent filing private until the patent is issued. The final patent is expected to take two or more years to be granted, and if granted, to have a lifespan of 17 years from the date of grant.

ITEM 4 DESCRIPTION OF THE BUSINESS

4.1 General

The Company is a railroad equipment supplier that produces and sells proprietary tank car components used in the safe loading, unloading and containment of hazardous materials during transport. Products are specifically designed to provide economic and operational advantages while reducing the potential effects of human error and environmental harm during the transport of hazardous materials. The Company offers a series of EPRVs for pressure management; the revolutionary new KKM; and ETS products that address the technical requirements of load and unload operations and the containment of hazardous commodities during transport. Products are proprietary and patent protected and designed for use on applications on railroad tank cars but can be modified for use in other markets such as trucking.

The Common Shares are publicly traded on the TSXV under the trading symbol "KLS", and on the OTCQX under the trading symbol "KEOSF".

The Company operates in combination with its wholly-owned subsidiaries, Kelso USA and Kelso Innovative. Kelso USA is the operational arm of the Company, while Kelso Innovative focuses on engineering industrial designs and distribution plans for the Company's KKM system for applications in the roadway trucking and trailer market.

Summary

The Company's principal markets are the United States and Canada. The Company distributes its products directly to its customers from the Company's production facilities in Bonham, Texas.

The Company's key products are the ETS, the KKM and the EPRV. See "General Development of Business – General" and "Description of Business – Key Products" for a description of each of these products. Each of these key products is at the commercial production stage. The Company, through Kelso Innovative, continues to work on the development of new products and on finding new and economic applications for its existing products, including, for example, applications for the Company's products in the trucking industry.

Business Model

The business model of the Company is focused on the industrial design and engineering development of qualified commercial products based on the Company's patents, proprietary rights and specific adoption criteria established by its clientele. The resulting products are marketed, produced and distributed to the Company's OEM, repair and retrofit customers in the railroad industry.

The Company's primary goal is to build large profitable revenue streams from its products. Management plans to reinvest profits into the expansion of the Company's business to grow earnings to levels that maintain financial health without further external funding; improve returns on investment; allow for the payment of dividends; and allow the corporate value to increase on behalf of the Company's shareholders.

The relevance of the Company's products is opportune as the railroad industry is entering a boom period due to the rapid growth of crude oil shipments in North America. The railroad industry has not meaningfully re-engineered load/unload and containment systems for hazardous materials in over 70 years. Social liabilities, environmental sensitivities and worker safety issues have increased government pressure and spurred new regulations in both Canada and the United States. This may prompt the transportation industry to adopt new technologies at a much quicker pace which would provide the Company with a solid foundation on which to grow a sustainable, profitable business.

The key components of the Company's business model include:

- experienced executive management;
- focused strategic plans that are achievable, flexible and sustainable;
- access to development capital through reputable public company governance;
- corporate branding as a reliable supplier of high-quality railroad equipment;
- exceptional customer service;
- industrial engineering capability for product solutions based on customers' specific criteria;
- growth of a "next generation" equipment catalogue through in-house product development;
- acquisition of new or established products that can grow new markets under our management;
- marketing initiatives that promote awareness of our products being "best available technology";
- reliable order base from customers to fuel predictable profitable business growth;
- production infrastructure and capacity that can supply demand; and
- profitability, liquidity, dividends and corporate value on behalf of the shareholders.

Although still a small enterprise, the Company is at the forefront of technology development and innovation for the railroad industry. The Company's business model is focused on becoming a leader in the design and supply of new innovative technologies aimed at worker safety; and the safe handling and containment of hazardous materials in transportation systems.

Key Products

The Company currently offers approximately 34 products. The key products that the Company offers, as summarized below, include a series of EPRVs for pressure management; the KKM, a revolutionary new manway securement system; and ETS products that address the technical requirements of load and unload operations and the containment of hazardous commodities during transport. Products are proprietary and patent protected and are designed for use on applications on railroad tank cars but can be modified for use in other markets such as trucking. See "General Development of Business – General" for additional information. In addition to current product offerings, Kelso Innovative has been working with key customers on new products to add to the Company's catalogue.

External Constant Force Spring Pressure Relief Valves (EPRV)

Over the past decade Kelso has been involved in the development, regulatory approval, marketing and manufacture of EPRVs that are designed for railroad tank cars that carry hazardous and nonhazardous commodities. The Company currently has approximately 27 versions of EPRVs in its product line, including a number of high-performance EPRVs. See “General Business – Three Year History”. The Company’s series of EPRVs are “best available technology” products and proprietary to the Company. They have a number of significant competitive advantages that include:

- high “barrier to entry” for competitors due to our patent rights and the years of testing required by the AAR to gain regulatory approvals;
- the only high flow valve in market that is totally external;
- substantial technological improvement over older valve systems as it eliminates the helical coil spring, the internal valve stems and spring guide tube;
- increased valve reliability due to little or no contact with HAZMAT;
- uses flat gasket seal which is more tolerant to contamination;
- low profile provides for better roll-over safety; and
- external design allows complete inspection during loading.

“Kelso Klincher®” Manway (KKM)

The Company holds the patent rights for a new manway technology trademarked as the “Kelso Klincher®”. The KKM is a revolutionary technology change for the railroad industry where the return on investment and arguments for customers’ adoption of the KKM are compelling. They include:

- one bolt-and-strap design eliminates eye-bolt problems and possible leaks due to crushed gaskets;
- eliminates lid deformation and nozzle distortion due to the over-torque of eye-bolts;
- eliminates relaxation of gaskets under eye-bolt location;
- eliminates eye-bolt nuts loosening in transit due to vibration and improper cross-bolting technique;
- standard AAR-approved gasket retention method with currently used hard and soft gaskets;
- ACME Thread on T-Bolt virtually eliminates loosening due to vibration;
- rigid collar at top of nozzle reduces risk of nozzle or lid distortion;
- much faster opening and closing operation with one bolt management system;
- uniform load on the gasket prolongs service life;
- reduces possible release of hazardous commodity in a roll-over accident by moving threaded closing mechanism below the plane of the lid;
- ease of operation with lightweight hinged lid; and
- no eye-bolts to kick at tank car inspection.

Kelso Tiger Tube™ - Eduction Technology (ETS)

The Kelso Tiger Tube™ ETS is a long-hose device used in the loading and unloading of highly corrosive chemicals from rail and road tank cars. It is constructed of specialty materials and has been specifically designed for the rigors of acid handling and transport.

Production and Services

The Company operates two production facilities totaling approximately 47,000 square feet in Bonham, Texas. The Company is fully qualified and certified to produce products for the railroad industry. It has been granted the required certifications for its production facilities from the AAR.

Location to supply chains and customers is a critical factor in the Company’s production strategy in order to reduce distribution costs of inbound components and shipping costs associated with outgoing finished products. Bonham, Texas is within 250 miles of the Company’s main customers. The Company controls assembly, testing, certification and shipping processes for its products. Production output can be scaled upwards when required with minimal investment.

The Company's policy is that all parts and workforce must be sourced in the United States or Canada when possible. The Company utilizes assembly production techniques to produce finished products. Cast and fabricated components of the Company's products are being sourced from expert certified suppliers. This minimizes expensive capital layouts for manufacturing equipment and certified human resource expertise. This reduces the Company's financial risks due to fabrication and casting errors.

Cost control and minimization is paramount to the Company's production strategy as is the plant location relative to customers to reduce distribution costs. The Company has engaged individuals with extensive production expertise with the overall goal of attaining economic, effective and efficient assembly operations.

Marketing

The Company's marketing professionals work directly with users of its products and the businesses that build, retrofit and repair railroad and trucking rolling stock. There are two key market segments for the Company's products. The largest and most demanding is the rail tank car manufacturers, or OEM, that produce new tank cars. The other is the railroad retrofit and repair market. Both market segments continue to be developed by the Company.

Management has established key strategic relationships with the Federal Railroad Administration of the United States (FRA), Transport Canada, and is a member of the AAR, the Railroad Supply Institute (RSI) and other influential members of the railroad community.

Marketing initiatives deliver a steady flow of new orders from customers. Lead times from order point to delivery date can range from one to 36 months. The Company has set its future sales targets based on railroad industry input as follows: 2013 - $12,000,000; 2014 - $24,000,000; and 2015 - $36,000,000.

Research and Development

A key cornerstone of the Company's ability to sustain business growth lies in its ability to create new commercial products. The Company's research, development and engineering initiatives are conducted through Kelso Innovative. Kelso Innovative is dedicated to the creation of new patented products that better serve the modern challenges of the domestic and international markets for the transport of HAZMAT via rail and road. Kelso Innovative works closely with HAZMAT stakeholders designing products that involve detailed proprietary and engineering knowledge and specific industry adoption criteria. Many of these new products have significant industrial market prospects. They are expected to be successfully developed, introduced and adopted commercially over the upcoming years.

Specialized Skill and Knowledge

The Company relies on the specialized skills of management, employees and consultants in the areas of product development and assembly, business development and public company management. In particular, the Company has has engaged individuals with extensive production expertise and railroad industry experience with the overall goal of attaining economic, effective and efficient assembly operations. The Company has also engaged a management team with extensive experience managing public companies. The loss of any of these individuals could have an adverse effect on the Company. See "Risk Factors".

Competitive Conditions

The Company is an innovator in the railroad equipment space and uses proprietary technology to develop patented products. As at the date of this AIF, the Company's main competitors are Midland Manufacturing of Chicago, Illinois, and Union Tank Car Company of Chicago, Illinois. The Company considers the products developed by these competitors to be legacy technology when compared to the Company's products. For example, Company's EPRV product line has advantages over the internal pressure valve products offered by competitors as described under "Description of the Business – General – Key Products". Competitive products may be forthcoming in the future but could be conditional based on their designs and may have to undergo lengthy service trials and applications to gain regulatory approvals from the AAR. This process could take two to three years to achieve, giving the Company a significant advantage. The Company holds patent rights to certain of its products and technologies. The Company takes its patent rights seriously and intends to vigorously defend any infringements on the Company's patents.

The ability of the Company to compete for and acquire production contracts for its products in the future will depend on a number of factors, including the Company's ability to continue to offer best available technology, competitive pricing, timely turnaround for purchase orders and strong customer service.

Components

The Company has three to five suppliers in the United States for each component part of its products, and sources parts directly from these suppliers based on the suppliers' ability to satisfy the purchase order within the specified timeframe. The Company assembles the components at its production facilities in Bonham, Texas to develop its finished products which are then shipped directly to the Company's customers. The parts used to assemble the Company's products are generally available from a variety of suppliers at competitive prices.

Intangible Properties

The Company's intangible property, particularly its intellectual property rights, plays an important role in securing the Company's competitive advantage. The Company holds the patents for its EPRV technology (Patent No. 5,855,225 which expires January 29, 2016) and for its KKM (Patent No. US 7,104,722 B2 which expires in 2023), and has a trademark for its Kelso Klincher® Manway (Registration Number 4,282,652) and has filed a trademark application for its Kelso Tiger Tube products. The Company applied for a patent on June 3, 2013 under a "Non-Publication Request" for its new BOV. The granting of the final patent for the BOV is expected to take two or more years, and if granted, is expected to have a lifespan of 17 years from the date of grant.

These patents and trademarks are critical to the Company's success as they provide a significant advantage to the Company over its competitors.

Cycles

The cyclical nature of the Company's business reflects the cyclical nature of business in the railroad industry. Generally, the first quarter is the quietest for the Company and others in the railroad industry, while the third and fourth quarters are the busiest. The quiet first quarter is attributable, in large part, to this being the time of the year when companies in the railroad sector are planning their development and purchase needs for the year, while the delivery of products tends to happen in the third and fourth quarter.

Economic Dependence

The Company's business is substantially dependent on Patent No. 5,855,225 for the Company's EPRV technology which expires in January 29, 2016 and Patent No. US 7,104,722 B2 for its KKM technology which expires in 2023. See "Material Contracts".

Although the Company does not have any formal agreements for long term, large-scale purchase orders from its existing customers, the Company maintains good working relationships with its customers to maintain its status as a preferred supplier of EPRV, KKM and ETS products. The Company currently services three out of the top four OEM producers of rail cars. Purchase orders from these and other customers continue to be submitted to the Company for its products.

Employees

As at December 31, 2012, the Company had approximately 30 employees, including employees of its subsidiaries. The largest group of employees works at the Company's production facilities in Bonham, Texas and the remainder work in Chicago, Illinois and North Delta, British Columbia.

Reorganizations

In April 2010, the Company completed a reorganization of its management team. In connection with this reorganization, in May 2010, the Company completed a consolidation of its Common Shares on the basis of seven old Common Shares for one new Common Share.

4.2 Risk Factors

The Company is diligent in minimizing exposure to business risks, but by the nature of its activities and size, will always be exposed to some risks. These risks are not always quantifiable due to their uncertain nature.

The Company's operations and financial performance are subject to the normal risks applicable to railroad equipment supply companies and are subject to various factors which are beyond the control of the Company. Risk areas include that the Company's products involve detailed proprietary and engineering knowledge and specific customer adoption criteria, hence factors may exist that could cause actual results to be materially different than those anticipated by management. These may include that the Company may be unsuccessful in raising any additional capital for needs that may arise; the Company may not have sufficient capital to develop, produce and deliver new orders; customer orders that are placed may be cancelled; products may not perform as well as expected; markets may not develop as quickly as anticipated or at all; or that the productive capacity of the Company may not be large enough to handle market demand. 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 in forward-looking statements.

Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

Risks Relating to the Business

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

The success of our company will be dependent on our ability to protect and develop our technology. The Company has obtained patents for its EPRV (Patent No. 5,855,225) and KKM technology (Patent No. US 7,104,722 B2); however, a patent has not been obtained for the Company's ETS technology. The Company has also obtained trademarks for its product names, particularly "Kelso Klincher®" (issued on January 29, 2013 under number 4,282,652) and has filed a trademark application for its Kelso Tiger Tube. The Company has also filed a patent application under a "Non-Publication Request" for its BOV.

If we are unable to secure trademark and patent protection for our intellectual property in the future, or that protection is inadequate for future products, our business may be materially adversely affected. Further, there is no assurance that our railroad equipment products, including our EPRVs, KKMs and ETS' or other aspects of our business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although we are not aware of any such claims, we may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we 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 us may result in substantial monetary liabilities, which may materially and adversely disrupt our business

Further, the AAR has specific adoption criteria that must be met before the Company's products can be utilized by customers in the railroad industry. The Company has been successful in obtaining AAR approvals for its key products; however, there is no guarantee that the Company's products will continue to meet AAR standards and adoption criteria as they evolve or that new products developed by the Company will receive AAR approval. In addition, certain customers may have specific adoption criteria beyond what is required by the AAR, and there is no guarantee that the Company will be able to cater to these specific adoption criteria. The Company's failure to meet AAR and customer adoption criteria could have a material negative impact on the Company's ability to obtain purchase orders and generate revenue.

The Company may have insufficient capital in the future to meet production demands and continue its operations.

Although the Company was profitable and had a positive working capital as at December 31, 2012, the Company may, from time to time, report a working capital deficit. To maintain its activities, the Company will require additional funds which may be obtained either by the sale of securities or obtaining debt financing. There is no assurance that the Company will be successful in obtaining such additional financing; failure to do so could result in the inability of the Company to develop new products, meet production and delivery demands and continue its operations.

The Company has a limited operating history and may not achieve its growth objectives.

The Company has a limited history of earnings. 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 it will not achieve its growth objectives. There is no assurance that the Company will be able to successfully complete its financing and development plans or operate profitably over the short or long term. 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 of time, the Company may have insufficient working capital to continue to meet its ongoing obligations and its 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 its existing product lines will be profitable.

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 its 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.

Competition may affect the Company's ability to acquire additional market share or to maintain revenue at current and projected levels.

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 revue at current and projected levels.

Customer orders that are placed may be cancelled.

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 may have a material negative impact on the Company, particularly if the Company has already ordered the component parts required to assemble the finished products for that order 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 able to mitigate the risk of loss to the Company from cancelled orders in this manner.

Products may not perform as well as expected.

There is a risk that the Company's products may not perform as well as expected, which may result in customer complaints, returned products, product recalls and/or loss of repeat customers. Any one of these effects may 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 has approximately three to five suppliers in the United States for each of the component parts and raw materials required to assemble the Company's finished products. There is a risk that the Company may face a shortage of parts and raw materials in the future if the Company's suppliers are unable to support current or increased customer demand for the Company's products. This could have a material negative impact on the Company, its revenues and continued operations.

The productive capacity of the Company may not be large enough to handle market demand.

The Company's current production facilities may not be large enough to handle market demand for the Company's products if market demand is beyond projected levels. The Company may not have sufficient capital to fund increased production at its 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 its customer base, and its ability to generate revenue at current and projected levels.

The Company's research and development efforts may not result in commercially viable products.

The Company's efforts to research and develop new products for the railroad industry and to develop applications for the Company's products in other industries, such as the trucking industry, may not result in commercially viable products or applications. This may have a negative impact on the Company as its current products may cease to be best-available technology and the Company would not have a replacement or alternative product offering. Also, this may result in the Company's investment into such research and development being a loss.

The Company may face uninsurable or underinsured risks.

In the course of development and production of railroad 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 as a result 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.

Risks Relating to Management

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

The future success of the Company heavily depends upon the continued services of its senior executives and other key employees. In particular, the Company relies on the expertise and experience of its CEO and CFO and of the CEO of Kelso USA and Kelso Innovative. The Company relies on the industry expertise and experience of its senior executives, and their working relationships with the Company's employees, customers and relevant regulatory authorities. 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 joins a competitor or forms a competing company, the Company may lose clients, suppliers, key professionals, technical know-how and staff members.

Because executive management is free to devote time to other ventures, shareholders may not agree with their allocation of time.

The Company's executive officers and directors devote the majority of their time to the management and operation of the Company's business. Management is not however, contractually required to manage or direct the Company as their sole and exclusive function and they may have other business interests and engage in other activities in addition to those relating to the Company. This includes rendering advice or services of any kind to and creating or managing other businesses.

The Board may change the Company's operating policies and strategies without prior notice to shareholders or shareholder approval and such changes could harm the Company's business and results of operations, and the value of the Common Shares.

The Board has the authority to modify or waive certain of the Company's current operating policies and strategies without prior notice and without shareholder approval. We cannot predict the effect any changes to the Company's current operating policies and strategies would have on the Company's business, operating results and value of the Common Shares. However, such changes could have a material adverse effect on the Company's financial position or otherwise.

The Articles of the Company contain provisions indemnifying its officers and directors against eligible penalties.

The Articles of the Company contain provisions with respect to the indemnification of our officers and directors against all eligible penalties, being a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding. An eligible proceeding means a legal proceeding or investigative action, whether current, pending, threatened or completed, in which a director, former director or alternate director of the Company (each, an "eligible party") or any of the heirs and legal personal representatives of the eligible party, by reason of the eligible party being or having been a director or alternate director of the Company: is or may be joined as a party; or is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding.

Risks Relating to the Common Shares

If the Company's business is unsuccessful, its shareholders may lose their entire investment.

Although shareholders will not be bound by or be personally liable for the Company's expenses, liabilities or obligations beyond their total original capital contributions, should the Company suffer a deficiency in funds with which to meet its obligations, the shareholders as a whole may lose their entire investment in the Company.

The Common Shares are subject to the price volatility of publicly traded securities.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price, which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company.

The Common Shares have limited liquidity and shareholders may be unable to sell their shares.

There is currently a limited market for the Common Shares and the Company can provide no assurance to investors that a market will develop. If a market for the Common Shares does not develop, shareholders may not be able to resell the Common Shares that they have purchased and they may lose all of their investment. Public announcements regarding the Company, changes in government regulations, conditions in the Company's market segment and changes in earnings estimates by analysts may cause the price of the Common Shares to fluctuate substantially.

Investors' interests in the Company will be diluted and investors may suffer dilution in their net book value per share if the Company issues additional shares or raise funds through the sale of equity securities.

The Company's constating documents currently authorize the issuance of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares, of which 5,000,000 are designated as Series 1 Shares. If we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in the Company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If the Company issues any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change in control of the Company.

The Company does not intend to pay dividends on any investment in the Common Shares.

The Company has never paid any cash dividends and currently does not intend to pay any dividends for the foreseeable future. To the extent that the Company requires additional funding currently not provided for in its financing plan, its funding sources may prohibit the payment of a dividend. Because the Company does not intend to declare dividends, any gain on an investment in the Company will need to come through an increase in the market price of the Common Shares. This may never happen and investors may lose all of their investment in the Company.

ITEM 5 DIVIDENDS AND DISTRIBUTIONS

5.1 Dividends and Distributions

The Company has not paid any dividends in its three most recently completed financial years. Any determination to pay any future dividends will remain at the discretion of the Company's Board of Directors (the "**Board**") and will be made based on the Company's financial condition and other factors deemed relevant by the Board. There are no restrictions on the ability of the Company to pay dividends except as set out under its governing statute and constating documents.

ITEM 6 DESCRIPTION OF CAPITAL STRUCTURE

6.1 Share Capital

The Company's authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of Class A non-cumulative preference shares (the "**Preferred Shares**") without par value, of which 5,000,000 are designated as convertible, voting preference shares (the "**Series 1 Shares**").

Common Shares

The Company is authorized to issue an unlimited number of Common Shares without par value. As at December 31, 2012, there were 39,990,583 Common Shares issued and outstanding. As at the date of this AIF, there were 41,345,347 Common Shares issued and outstanding.

The holders of the Common Shares are entitled to one vote for each Common Share held on all matters to be voted on by such holders. The holders of Common Shares are entitled to receive, pro rata, such dividends as may be declared by the Board out of funds legally available therefore. No dividends shall be declared or paid on the Common Shares unless and until dividends are rateably declared on the Series 1 Shares on the basis of that number of Common Shares into which the Series 1 Shares may be converted at the time such dividends are declared. The holders of Common Shares are entitled to receive, pro rata, the remaining property of the Company on a liquidation, dissolution or winding-up of the Company after the holders of Preferred Shares, including holders of Series 1 Shares, have been paid. There are no pre-emptive rights or redemption rights attached to the Common Shares.

Preferred Shares

The Company is authorized to issue an unlimited number of Preferred Shares without par value. As at December 31, 2012 and as at the date of this AIF, there were no Preferred Shares issued and outstanding.

The holders of Preferred Shares have preference over holders of Common Shares in the event of dissolution, liquidation or winding-up of the Company and shall be entitled to receive the amount paid up with respect to each Preferred Share held by them, together with the fixed premium (if any) thereon, all accrued and unpaid cumulative dividends (if any and if preferential) thereon, and all declared and unpaid non-cumulative dividends (if any and if preferential) thereon. After payment to the holders of Preferred Shares of the amounts so payable to them, they shall not, as such, be entitled to share in any further distribution of the property or assets of the Company except as specifically provide dint he special rights and restrictions attached to any particular series.

Series 1 Shares

The Company has designated 5,000,000 of the Preferred Shares as Series 1 Shares. As at December 31, 2012 and as at the date of this AIF, there were no Series 1 Shares issued and outstanding.

The holders of the Series 1 Shares are subject to the special rights and restrictions attached to the Preferred Shares generally, in addition to the special rights and restrictions attached to the Series 1 Shares. The holders of the Preferred Shares shall be entitled to receive notice of and attend all meetings of shareholders of the Company and shall have the right to vote at any such meeting on the basis of one vote for each Series 1 Share held.

The Series 1 Shares are, for a period of five years after issuance, convertible into units at the rate of one unit for the greater of every $0.15 of paid-up capital in respect of the Series 1 Shares being converted and such amount as may be stipulated by the TSXV at the time of issuance of such Series 1 Shares as a condition to acceptance of such issuance by the TSXV. This rate shall escalate by $0.05 on each annual anniversary (but $0.10 if the previous rate was above $0.50, and $0.25 if the previous rate was above $1.00). Each unit shall consist of one Common Share and one non-transferable share purchase warrant. Each warrant shall entitle the holder to purchase one additional Common Share for a period of two years (but not subsequent to the fifth anniversary of the issuance of the corresponding Series 1 Share). The purchase price during the first year of the term of the warrant shall be equal to the conversion price of the corresponding Series 1 Share at the time of conversion. During the second year, the purchase price shall increase by 15%. If the Series 1 Shares are not converted during the aforesaid five year period, each Series 1 Share shall be deemed to have been converted immediately after the expiry of such period at the applicable conversion price described above.

No dividends shall be declared or paid on the Common Shares unless and until dividends have been rateably declared on the Series 1 Shares on the basis of that number of Common Shares into which the Series 1 Shares may be converted at the time such dividends are declared.

In the event of a dissolution, winding up or other return of capital of the Company, registered holders of Series 1 Shares shall be entitled to receive the amount paid up on such shares before any amount shall be paid or any property or assets of the Company is distributed to the registered holders of any other classes of shares. After payment to the registered holders of the Series 1 Shares of the amount payable to them as provided above, they shall not be entitled to share in any further distribution of the property or assets of the Company.

6.2 Stock Options

As at December 31, 2012, 2,573,500 options to purchase Common Shares (each, an "**Option**") were issued and outstanding of which 2,536,000 were exercisable. The remainder of the Options were not yet vested as of December 31, 2012. The Options are exercisable as follows: 10,929 Options exercisable at $0.70 each until May 26, 2013; 250,000 Options exercisable at $0.24 each until December 7, 2013; 150,000 Options exercisable at $0.55 each until February 9, 2014; 150,000 Options exercisable at $0.65 each until November 25, 2014; 600,000 Options exercisable at $0.24 each until June 2, 2015; 554,000 Options exercisable at $0.24 each until October 4, 2015; 420,000 Options exercisable at $0.58 each until July 22, 2016; 100,000 Options exercisable at $0.58 each until August 25, 2016; 310,000 Options exercisable at $0.65 each until October 30, 2017; and 28,571 Options exercisable at $0.70 each until October 7, 2019. As of the date of this AIF, 2,338,571 of Options were issued and outstanding, 2,338,571 of which were exercisable.

6.3 Warrants

As at December 31, 2012, 3,056,529 Common Share purchase warrants (each, a "**Warrant**") were issued and outstanding. The Warrants are exercisable as follows: 997,500 Warrants exercisable at $0.80 each until September 18, 2014; 1,059,029 Warrants exercisable at CAD$2.10 each from October 31, 2012 to October 20, 2013 and at $5.25 from October 31, 2013 to October 30, 2014; and 1,000,000 Warrants exercisable at CAD$0.70 each until July 25, 2013. As of the date of this AIF, 2,935,704 Warrants were issued an outstanding.

ITEM 7 MARKET FOR SECURITIES

7.1 Trading Price and Volume

The Common Shares are publicly traded on the TSXV under the symbol "KLS", and on the OTCQX under the symbol "KEOSF". The table below sets forth the high and low closing prices and the volumes for the Common Shares traded through the TSXV and QTCQX on a monthly basis for the year ended December 31, 2012, as stated in Canadian dollars and U.S. dollars, as applicable.

Month of Year Ended December 31, 2012	TSXV (Canadian dollars, $)			OTCQX (U.S. dollars, $)		
	High(1)	Low(1)	Volume	High(1)	Low(1)	Volume
December	0.68	0.51	688,709	0.66	0.54	21,480
November	0.62	0.52	579,696	0.57	0.53	3,428
October	0.67	0.58	608,118	0.65	0.60	63,754
September	0.65	0.58	374,963	0.63	0.62	3,000
August	0.67	0.58	537,051	0.67	0.62	42,750
July	0.69	0.55	631,863	0.64	0.60	35,220
June	0.61	0.49	663,769	0.55	0.49	77,400
May	0.64	0.52	665,827	0.60	0.53	100,784
April	0.69	0.55	606,280	0.63	0.58	173,700
March	0.72	0.63	593,341	0.72	0.67	128,570
February	0.70	0.60	591,711	0.70	0.63	72,338
January	0.70	0.58	602,563	0.68	0.64	29,500

(1) Rounded to the nearest cent.

7.2 Prior Sales

On November 25, 2011, the Company granted 150,000 Options to several contractors engaged by the Company. These Options have an exercise price of $0.65 per share for a term of three years, and vest in one quarter increments every six months over a period of 18 months.

On September 28, 2012, the Company issued 1,995,000 units at a price of $0.60 per unit. Each unit consists of one Common Share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.80 per share until Septembers 28, 2014.

On October 30, 2012, the Company granted 310,000 Options which are exercisable at $0.65 until October 30, 2017.

ITEM 8 ESCROW SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

8.1 Escrowed Securities and Securities Subject to Contractual Restriction on Transfer

As at December 31, 2012 and the date of this AIF, there were no Common Shares held that are in escrow or subject to contractual restrictions on transfer.

ITEM 9 DIRECTORS AND OFFICERS

9.1 Name, Occupation and Security Holding

At present, the directors of the Company are elected at each annual general meeting and hold office until the next annual general meeting or until their successors are duly elected or appointed in accordance with the Company's Articles or until such director's earlier death, resignation or removal. The Company's current Board consists of: William Troy, James R. Bond, Neil Gambow, Peter Hughes and Anthony Andrukaitis.

Officers are appointed annually by the Board and hold office until they are replaced by the Board or until such officer's earlier death, resignation or removal. The Company's current executive officers are: James R. Bond, President and Chief Executive Officer ("**CEO**") of the Company; Richard Lee, Chief Financial Officer ("**CFO**") and Secretary of the Company; and Neil Gambow, CEO of Kelso USA and CEO of Kelso Innovative.

Name, Province, Country of Residence and Position(s)	Present Principal Occupation, Business or Employment	Director or Officer Since	Number of Voting Securities Beneficially Owned, Controlled or Directed (Directly or Indirectly)[(1)]
James R. Bond[(2)] British Columbia, Canada *President, CEO and Director*	President of Bondwest Enterprises Inc. a private company specializing in public company management, corporate finance, entrepreneurial management and business development since 1988.	April 7, 2010	1,035,500 Common Shares[(4)]
Richard Lee Vancouver, Canada *CFO and Secretary*	CFO of the Company since April 8, 2010 and self-employed businessman.	April 8, 2010	Nil[(7)]
William Troy[(2)] Washington, USA *Director*	Businessman.	November 21, 2005	1,014,531 Common Shares[(3)]
Neil Gambow Illinois, USA *Director*	CEO of Kelso Innovative from June 21, 2012 to Present; President and CEO, Kelso USA from November 2007 to present; President, Nexnine LLC a consultancy business since November 2006	December 28, 2009	516,169 Common Shares
Peter Hughes[(2)] British Columbia, Canada *Director*	Self-employed businessman.	October 4, 2010	Nil[(5)]
Anthony Andrukaitis Texas, USA *Director*	Independent Business Consultant; Chief Operations Officer of Trinity Industries, Inc. (holding company providing products and services to industrial, energy, transportation, and construction sectors) from July 2004 to March 2009.	August 24, 2011	150,000 Common Shares[(6)]

(1) Securities beneficially owned, directly or indirectly, or over which control or direction is exercised, as at June 20, 2013, based upon information furnished to the Company by the individual directors and officers.
(2) Member of the Audit Committee.

(3) Mr. Troy also holds 100,000 Options and 100,000 warrants which are exercisable into Common Shares, on a one-for-one basis, that are not included in the total.

(4) Mr. Bond holds 260,500 Common Shares directly; 625,000 Common Shares indirectly through Bondwest Enterprises Inc., a company owned and controlled by Mr. Bond; and 150,000 Common Shares jointly with his spouse. Mr. Bond also holds 400,000 Options which are exercisable into Common Shares, on a one-for-one basis, that are not included in the total.

(5) Mr. Hughes holds 150,000 Options which are exercisable into Common Shares, on a one-for-one basis, that are not included in the total.

(6) Mr. Andrukaitis holds 150,000 Options which are exercisable into Common Shares, on a one-for-one basis, that are not included in the total.

(7) Mr. Lee holds 400,000 Options which are exercisable into Common Shares, on a one-for-one basis, that are not included in the total.

As at the date of this AIF, the directors and executive officers of the Company, as a group, beneficially owned directly or indirectly, or exercised control or direction over 2,716,200 Common Shares constituting approximately 6.6% of the issued and outstanding Common Shares.

9.2 Corporate Cease Trade Orders

To the best of management's knowledge, no director or executive officer of the Company is or has been within 10 years before the date of this AIF, a director, CEO or CFO of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied that person or company access to any exemption under securities legislation for a period of more than 30 consecutive days, or (ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity of director, CEO or CFO.

9.3 Bankruptcies

To the best of management's knowledge, no director, executive officer or shareholder holding a sufficient number of shares to materially affect control of the Company: (i) is or has been within the 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

9.4 Penalties and Sanction*s*

To the best of management's knowledge, no director, executive officer or shareholder holding a sufficient number of shares to materially affect control of the Company has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

9.5 Conflicts of Interest

In the event conflicts arise at a meeting of the Board, a director who has such a conflict will declare the conflict and abstain from voting. In appropriate cases, the Company may establish a special committee of independent non-executive directors (who must at all times be "independent" within the meaning of National Instrument 52-110 – *Audit Committees*) to review a matter in which one or more directors or officers may have a conflict.

To the best of the Company's knowledge there are no known existing or potential conflicts of interest between the Company and any director or officer of the Company, except that certain of the directors of the Company may serve as directors and officers of other companies and it is therefore possible that a conflict may arise between their duties as a director or officer of the Company and their duties as a director or officer of such other companies. Where such conflicts arise, they will be addressed as indicated above.

ITEM 10 PROMOTERS

James R. Bond, the President, CEO and Director of the Company may be considered to be a promoter of the Company. See "Directors and Executive Officers" for a summary of Mr. Bond's shareholdings. See the Referenced Documents for a summary of compensation paid by the Company to Mr. Bond.

ITEM 11 LEGAL PROCEEDINGS AND REGULATORY ACTIONS

11.1 Legal Proceedings

There are no legal proceedings to which the Company is or was a party to, or that any of the Company's property is or was the subject of, during the most recently completed financial year, that were or are material to the Company, and there are no such material legal proceedings that the Company is currently aware of that are contemplated.

11.2 Regulatory Proceedings

There are no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the most recently completed financial year, no penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, and no settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

ITEM 12 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

12.1 Interest of Management and Others in Material Transactions

Other than as described elsewhere in this AIF and in the Referenced Material, no director or executive officer of the Company, person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of any class or series of voting securities of the Company, or any associate or affiliate of any such persons has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or would materially affect the Company or any of its subsidiaries.

ITEM 13 TRANSFER AGENTS AND REGISTRARS

13.1 Transfer Agents and Registrars

The transfer agent and registrar for the Common Shares of the Company is Computershare Investor Services Inc., 510 Burrard Street, 2nd Floor, Vancouver, British Columbia V6C 3B9. The register of transfers for the Common Shares is located at the Vancouver office of Computershare Investor Services Inc.

ITEM 14 MATERIAL CONTRACTS

14.1 Material Contracts

There are no other contracts, other than those disclosed in this AIF and those entered into in the ordinary course of the Company's business, that are material to the Company and which were entered into in the most recently completed fiscal year or which were entered into before the most recently completed fiscal year but are still in effect as of the date of this AIF:

1. The Company's patent for the EPRV is in good standing until January 29, 2016. The patent abstract describes the EPRV as "a pressure relief valve for releasing fluid through a vent in a railway tank car, tank trucks and similar vessels. A valve disc is normally biased in a closed position by a plurality of constant-force springs of laminated steel tapes on drums supported on upright angle brackets symmetrically arranged around a valve seat. The pressure at which the valve opens is determined by a pre-selection of the number of springs, laminated tapes per spring and the restoring force of each tape." See "Description of Business".

2. On May 26, 2010, the Company entered into an agreement with Barry LaCroix whereby the Company acquired Manhole Cover Patent No. US 7,104,722 B2 from Mr. LaCroix and related technology and intellectual property in consideration for CDN$40,000 and the grant of a 5% royalty on gross sales of the manhole covers sold under the auspices of the patent in favour of Mr. LaCroix on the terms and conditions set out in the agreement. This patent expires 2023.

3. The Company has a shareholder rights plan pursuant to an agreement between the Company and Computershare Trust Company of Canada dated February 3, 2011. This plan was approved by the shareholders of the Company on March 4, 2011 and by the TSXV on April 6, 2011. A copy of the shareholder rights plan is available on SEDAR at www.sedar.com.

4. The Company has a 10% rolling stock option plan which was last approved by the shareholders of the Company on March 8, 2012. This stock option plan is scheduled to be voted on by the shareholders of the Company at the next annual general and special meeting. See "Approval of Stock Option Plan" within the Company's Management Information Circular dated May 7, 2013, included in the Referenced Material available on SEDAR at www.sedar.com, for a summary of the terms of the stock option plan.

5. Effective April 1, 2011, the Company entered into an employment agreement with James R. Bond, the President and CEO of the Company. The agreement is for a 36-month term. The agreement provides for a severance clause of three months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Bond a base salary of $10,000 per month for the first twelve months of the agreement, $12,500 per month for the second twelve months and $15,000 per month for the last twelve months of the agreement. Mr. Bond is eligible to receive a bonus on the performance of the Company.

6. Effective April 1, 2011, the Company entered into an employment agreement with Richard Lee, the CFO and Secretary of the Company. The agreement is for a 36-month term. The agreement provides for a severance clause of three months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Lee a base salary of $10,000 per month for the first twelve months of the agreement, $12,500 per month for the second twelve months and $15,000 per month for the last twelve months of the agreement. Mr. Lee is eligible to receive a bonus on the performance of the Company.

7. Effective April 1, 2011, the Company entered into an employment agreement with Neil Gambow, the President and CEO of Kelso USA. The agreement is for a 36-month term. The Agreement provides for a severance clause of three months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Gambow a base salary of $10,000 per month for the first twelve months of the agreement, $12,500 per month for the second twelve months and $15,000 per month for the last twelve months of the agreement. Mr. Gambow is eligible to receive a bonus on the performance of the Company.

8. On November 28, 2012, the Company acquired all proprietary and manufacturing rights from the James Wilson Company of Houston, Texas for their eduction tubes, currently marketed as the Tiger Tube, for US$65,000. The Company intends to trademark the product as the Kelso Tiger Tube. To support the Company's activities, Jim Wilson has agreed to serve as a consultant to the Company and will receive a fee of $6,500 per month for 24 months. In addition the Company will pay a 7% royalty from sales over the duration of the consulting agreement.

9. On November 1, 2012, the Company entered into a lease with Bonham Associates Management Ltd. ("**BAML**") whereby BAML agreed to lease a 41,600 square foot facility to the Company in Bonham, Texas for $$8,667 per month for a period of 13 months, with an option to renew for an additional 12 months at the same monthly rate.

ITEM 15 EXPERTS

15.1 Names of Experts

The auditors' report on each of the December 2012 Financial Statements and the August 2012 Financial Statements which are incorporated by reference into this AIF were prepared by Smythe Ratcliffe LLP, the Company's independent auditors.

15.2 Interests of Experts

To the best of the Company's knowledge, the independent auditors of the Company, Smythe Ratcliffe LLP, do not hold any registered or beneficial interest, direct or indirect, in any securities or other property of the Company or any of its associates or affiliates and no securities or other property of the Company or any of its associates or affiliates were subsequently received or are to be received by such auditors.

ITEM 16 ADDITIONAL INFORMATION

16.1 Additional Information

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans are contained in the Management Information Circular prepared in connection with the Company's annual general and special meeting of shareholders scheduled for June 5, 2013, a copy of which is available on SEDAR at www.sedar.com. Additional financial information is provided in the December 2012 Financial Statements and August 2012 Financial Statements, the management discussion and analysis thereon, and the other Referenced Materials which are incorporated by reference herein and are available on SEDAR at www.sedar.com.