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

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] SHELL COMPANY PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report N/A

For the transition period from N/A **to** N/A

Commission file number 001-36685

KELSO TECHNOLOGIES INC.
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

British Columbia, Canada
(Jurisdiction of incorporation or organization)

13966 18B Avenue, Surrey, British Columbia V4A 8J1, Canada
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Class	Name of each exchange on which registered
Common Shares Without Par Value	**NYSE MKT**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Nil
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

46,071,752 common shares without par value outstanding on December 31, 2015.
There were no Class A non-cumulative preference shares outstanding on December 31, 2015.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] YES [**X**] NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. [ ] YES [**X**] NO

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [**X**] YES [] NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). NOT APPLICABLE TO THE REGISRANT AT THIS TIME [] YES [ ] NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [**X**]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [ ] International Financial Reporting Standards as issued by the International Accounting Standards Board [**X**] Other [ ]

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

[ ] ITEM 17 [ ] ITEM 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] YES [X] NO

Under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), Kelso Technologies Inc. is classified as an "Emerging Growth Company." Under the JOBS Act, Emerging Growth Companies are exempt from certain reporting requirements, including the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. Under this exemption, the company's auditor will not be required to attest to and report on management's assessment of the company's internal controls over financial reporting. The company is also exempt from certain other requirements, including the requirement to adopt certain new or revised accounting standards until such time as those standards would apply to private companies. The company will remain an Emerging Growth Company for up to the last day of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities pursuant to an effective registration statement under the Securities Act of 1933, although it will lose that status earlier if revenues exceed US$1 billion, or if the company issues more than US$1 billion in non-convertible debt in a three year period, or the company will lose that status on the date that it is deemed to be a large accelerated filer.

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These statements relate to future events or future financial performance. In some cases, you can identify forward-looking statements by terminology such as "estimate", "project", "believe", "anticipate", "intend", "expect", "plan", "predict", "may", "should", "potential", or "continue", the negative thereof or other variations thereon or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kelso Technologies Inc. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

There can be no assurance that the forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in this annual report speak only as to the date hereof, or such other date as may be indicated herein. Except as required by applicable law, including the securities laws of the United States and Canada, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

In this annual report, unless otherwise stated, all dollar amounts are expressed in United States dollars ("**$**"). The financial statements and summaries of financial information contained in this annual report are also reported in United States dollars unless otherwise stated. All such financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), unless expressly stated otherwise.

As used in this annual report, the terms "we", "us" and "our" refer to Kelso Technologies Inc. and its wholly-owned subsidiaries Kelso Technologies (U.S.A.) Inc. and of Kelso Innovative Solutions Inc. (collectively the "**Company**").

PART I

Item 1. Identity of Directors, Senior Management and Advisers

The directors and the senior management of the Company are as follows:

Name and Office Held	Function
James R. Bond *Director, President and Chief Executive Officer*	As President and Chief Executive Officer, Mr. Bond is responsible for strategic planning and operations, as well as managing our relations with the Company's legal advisers, regulatory authorities and the investment community; as a director, Mr. Bond participates in management oversight and helps to ensure compliance with the Company's corporate governance policies and standards.
William Troy *Director and Audit Committee Member*	As an independent director, Mr. Troy supervises the Company's management and helps to ensure compliance with our corporate governance policies and standards.
Neil Gambow *Director, Managing Director Corporate Development and former Chief Operating Officer*(1)	As a director, Mr. Gambow supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards. As Managing Director Corporate Development, Mr. Gambow is responsible for the daily operations of the Company's plant in Bonham, TX as well as the development, sales, marketing and engineering of the Company's products.
Peter Hughes *Director and Audit Committee Member*	As an independent director, Mr. Hughes supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Anthony Andrukaitis *Director and Executive Vice President Business Development and Chief Operating Officer*(1)	As a director, Mr. Andrukaitis supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards. As Vice President Business Development and COO, Mr, Andrukaitis is responsible for the daily operations of the Compny's plant in Bonham, Texas andwill continue to take an active management role in pursuing growth of business opportunities, including mergers and acquisitions.

Name and Office Held	Function
Phil Dyer *Director and Audit Committee Member*	As an independent director, Mr. Dyer supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
John R. O'Neill *Director*	As an independent director, Mr. O'Neill supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Richard Lee *Chief Financial Officer*	As our Chief Financial Officer, Mr. Lee is responsible for the management and supervision of all of the financial aspects of the Company's business.

(1) On March 1, 2015 Mr. Gambow resigned as Chief Operating Officer of the Company and was appointed Managing Director Corporate Development. Mr. Andrukaitis was appointed Chief Operating Officer of the Company on March 1, 2016.

The business address for our directors and officers is 13966 18B Avenue, Surrey, British Columbia, Canada V4A 8J1.

Advisers

The Company's legal advisers are Clark Wilson LLP with a business address at 900 – 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1.

Auditors

The Company's current auditors are Smythe CPA, Chartered Professional Accountants, with a business address at 700 – 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8. Smythe CPA, Chartered Professional Accountants, are members of the Institute of Chartered Professional Accountants of British Columbia and are registered with both the Canadian Public Accountability Board and the U.S. Public Company Accounting Oversight Board. Smythe CPA, Chartered Professional Accountants were first appointed as the Company's auditors on November 16, 2009.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. ***Selected Financial Data***

<u>*Prepared In Accordance With IFRS*</u>

The following table summarizes selected financial data for the Company for the years ended December 31, 2015, 2014 and 2013 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("**IASB**"). Effective December 31, 2012, we changed our fiscal year end from August 31st to December 31st. The information in the table was extracted from the detailed financial statements and related notes included in this annual report and should be read in conjunction with such financial statements and with the information appearing under the heading, "Item 5 – Operating and Financial Review and Prospects" beginning at page 25 below.

Selected Financial Data

Statements of Income (Loss) Data	Year ended December 31, 2015 (audited) ($)	Year ended December 31, 2014 (audited) ($)	Year ended December 31, 2013 (audited) ($)	Four months ended December 31, 2012 (audited) ($)	Year ended August 31, 2012 (audited) ($)
Revenues	18,910,122	23,816,809	13,131,387	2,830,778	2,233,807
Gross Profit	5,100,129	10,924,325	5,305,207	893,171	560,373
Net (Loss)/Income and Comprehensive (Loss)/Income	(2,510,826)	4,025,781	2,456,636	10,988	(1,276,827)
Basic and Diluted (Loss)/Earnings per Share	(0.05)	0.09	0.06	0.00	(0.04)

Statement of Financial Position Data	As at December 31, 2015 (audited) ($)	As at December 31, 2014 (audited) ($)	As at December 31, 2013 (audited) ($)	As at December 31, 2012 (audited) ($)	As at August 31, 2012 (audited) ($)
Assets	16,157,689	20,696,182	9,283,388	4,319,482	2,689,346
Current Liabilities	2,550,970	4,097,256	486,147	283,042	763,773
Shareholders' Equity/(Deficiency)	13,606,719	16,598,926	8,797,241	4,036,440	1,925,573
Common Shares	22,515,140	22,141,417	18,086,144	16,073,471	14,495,094
(Deficit)/Retained Earnings	(11,806,569)	(7,918,089)	11,507,420	(13,964,056)	(13,975,044)
Outstanding Common Shares	46,071,752	45,246,752	43,020,326	39,990,583	36,659,583

*B. **Capitalization and Indebtedness***

Not applicable.

*C. **Reasons for the Offer and Use of Proceeds***

Not applicable.

*D. **Risk Factors***

Due to our size and the nature of our activities, we will always be exposed to some business risks. This section discusses the material risks facing our Company.

Our 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 our control. Risk areas include that our 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 our Company may be unsuccessful in raising any additional capital for needs that may arise; our 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 our 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. These risk factors are described in more detail below.

<u>Risks Relating to the Business</u>

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 the Company will be dependent on the Company's ability to protect and develop our technology. The Company has obtained patents for its external constant force spring pressure relief valves (each, an "**EPRV**") (Patent No. 5,855,225) and a manway securement system trademarked the "Kelso Klincher®" (the "**KKM**") (Patent No. US 7,104,722 B2); however, the Company does not have a patent for its Kelso Tiger Tube™ - Eduction Technology eduction tube (the "**ETS**") technology. The patent for the ETS technology expired several years ago, although the Company does hold manufacturing, sale and technology rights. 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 Bottom Outlet Valve ("**BOV**") design and its Vacuum Relief Valve ("**VRV**"). A "Non-Publication Request" keeps the patent filing private until the patent is issued. Patent applications filed under a "Non-Publication Request" only provide protection in the U.S. and not internationally. See "Information on our Company – History and Development of our Company – Three Year History – 2013" for additional information on "Non-Publication Request". See "Information on our Company – Business Overview – Key Products" for additional details regarding EPRVs, KKMs and ETS'.

If the Company is unable to secure trademark and patent protection for our intellectual property in the future, or that protection is inadequate for future products, the business may be materially adversely affected. Further, there is no assurance that our railroad equipment products, including the Company's EPRVs, KKMs and ETS' or other aspects of the 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 Association of American Railroads (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 had a positive working capital in the amount of $10,099,390 as at December 31, 2015, the Company may, from time to time, report a working capital deficit. The Company reported a net loss and comprehensive loss for the year ended December 31, 2015 of $2,510,826, net income and comprehensive income for the fiscal year ended December 31, 2014 of $4,025,781, December 31, 2013 of $2,456,636. To maintain its activities, the Company may 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 revenue 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.

The Company is dependent on a limited number of customers.

Although the Company is optimistic about its future as a railroad equipment supplier, the Company is dependent upon a limited number of customers for a significant portion of its revenue. In particular, the Company is dependent on four major corporations as customers. The sales to these four customers (Customer A, B, C and Customer D) exceeded 10% of the Company's revenues during the years ended December 31, 2015, 2014 and 2013. During the year ended December 31,2015 the Company had $18,910,122 of revenues of which sales of $8,555,088 were from Customer A, sales of $2,045,215were from Customer B, sales of $3,196,253 were from Customer C abd sales of $1,959,883 were from Customer D. During the year ended December 31, 2014 the Company had $ $23,816,809 of revenue of which sales of $14,997,197 were from Customer A and sales of $3,180,348 were from Customer B. During the year ended December 31, 2013, the Company had $13,131,387 of revenue of which sales of $8,782,478 were from Customer A and sales of $3,409,289 were from Customer B. Although Customers A, B, C, and D have displayed a pattern of consistent timely payment of accounts owing, there is no guarantee that sales to these customers will continue at current levels or that these customers will continue to satisfy their payment obligations to the Company in a timely manner. The Company does not have any formal agreements for long term, large-scale purchase orders with these customers and only sells to them based on purchase orders received. The Company expects that a limited number of customers will continue to represent a substantial portion of its sales for the foreseeable future. The loss of any of these customers could have a material negative impact upon the Company and its results of operations.

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. The Company maintains product liability insurance and commercial general liability insurance at levels which the Company believes are adequate based on the Company's customer base and revenue from product sales. However, the amount of the Company's insurance coverage may not be sufficient to cover future products claims. In 2015, the Company's product liability insurance premiums were $338,719 for up to $2,000,000 of aggregate product liability insurance coverage and up to $1,000,000 of coverage per incident. In 2015, the Company's commercial general liability insurance premiums were $94,975 for up to $2,000,000 aggregate coverage and $1,000,000 of coverage per incident.

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. The Company maintains commercial general liability insurance for claims up to $2,000,000 in aggregate and $1,000,000 per incident, as well as product liability insurance for claims up to $2,000,000 in aggregate and $1,000,000 per incident. Although the Company believes that the insurance policies currently in place adequately insure the Company given the size of its 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.

The raw materials used by the Company for its products are subject to price fluctuations.

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

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 Chief Executive Officer ("**CEO**"), Chief Financial Officer ("**CFO**"), Chief Operating Officer ("**COO**") and Managing Director Corporate Development and of the CEO of Kelso Technologies (U.S.A.) Inc. ("**Kelso USA**") and Kelso Innovative Solutions Inc. ("**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, including other businesses in the railroad industry. The Company's executive officers and directors are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises, at a meeting of the board of directors of our Company (the "**Board**"), any director with a conflict is required to disclose their interest in the matter and to abstain from voting on such matter.

The board of directors 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.

Since many of the Company's officers and directors are located in Canada, it may be difficult to enforce any United States judgment for claims brought against the Company's officers and directors.

The Company has been organized under the laws of the Province of British Columbia, Canada. Although the Company's assets are located in the United States, many of the Company's officers and directors are residents of Canada. While a cross border treaty exists between the United States and Canada relating to the enforcement of foreign judgments, the process of such is cumbersome and in some cases has prevented the enforcement of judgments. As a result, while actions may be brought in Canada, it may be impossible to effect service of process within the United States on the Company's officers and directors or to enforce against these persons any judgments in civil and commercial matters, including judgments under United States federal securities laws. In addition, a Canadian court may not permit an original action in Canada or enforce in Canada a judgment of a United States court based on civil liability provisions of United States federal securities laws.

The Company's business reputation and relationship with customers and suppliers may be negatively impacted by the actions of former directors and officers of the Company.

In April 2010, a new management team was appointed by the Company. The Company believes that the new management team has improved the Company's business reputation and gained the confidence of the railroad and investment community by making deliveries on time and satisfying payment obligations on time, which was not always the case before the Company's current management came on board. Although the Company and its current management team strive to make deliveries and payments on time and to operate the business of the Company in a manner which maintains the Company's business reputation and the confidence of the railroad and investment community, there is a risk that the actions of the Company's current and former directors and officers, and in particular their failure to make certain deliveries and payments on time, may negatively impact the Company's current and future business reputation and relationships with customers and suppliers, including the risk that certain prospective customers and suppliers may not do business with the Company due to the actions of the Company's former management team.

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.

The Company is publicly traded on both the Toronto Stock Exchange and NYSE MKT. There is currently a limited market for the Common Shares and the Company can provide no assurance to investors that a liquid 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.

As a foreign private issuer the Company will not be subject to U.S. proxy rules.

As a foreign private issuer, the Company will be exempt from the rules and regulations under the *Securities Exchange Act of 1934* (United States) related to the furnishing and content of proxy statements.

Item 4. Information on our Company

A. History and Development of Our Company

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 900 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The Company's corporate head office is located at 13966 18B Avenue, Surrey, British Columbia V4A 8J1. The Company's head office telephone number is (250) 764-3618.

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 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 held on June 5, 2013, the Company obtained 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 have been publicly traded on the Toronto Stock Exchange (the ("**TSX**") under the symbol "KLS" since May 22, 2014, prior to which the Common Shares traded on the TSX Venture Exchange ("**TSXV**"). The Common Shares have traded on the NYSE MKT ("**NYSE MKT**") under the symbol "KIQ" since October 14, 2014, prior to which the Common Shares traded on the U.S. OTCQX over the counter market ("**OTCQX International**") under the symbol "KEOSF".

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. Kelso USA is the operational arm of the Company and Kelso Innovative focuses on industrial designs and distribution plans for the Company's KKM system for applications for the roadway trucking and trailer market.

General Development of the Business

General

The Company is a railroad equipment supplier that produces and sells proprietary tank car service equipment used in the safe loading, unloading and containment of non-hazardous and 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 non-hazardous and hazardous materials.

The Company currently offers approximately 60 products. The key products that the Company offers include a series of 47 types of EPRVs for pressure management; 4 types of KKMs; 4 types of bottom outlet valves (BOV), 4 types of vacuum relief valves (VRV) and 1 ETS product that address the technical requirements of load and unload operations and the containment of hazardous commodities during transport. See "Key Products" below for a description of the Company's key products and "Markets" for the revenue generated from each key product. In addition to current product offerings, Kelso Innovative, the Company's wholly-owned product development enterprise, has been working on new products to add to the Company's catalogue by incorporating customer feedback into product development decisions.

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; accessed new equity development capital; established a new production infrastructure whereby the Company believes it has a strong supply chain which provides services and technology to produce the products necessary to satisfy customer purchase orders and fluctuating demand; secured required regulatory approvals; secured product liability insurance; implemented educational marketing initiatives; and grown sales and distribution of products to North American rail tank car manufacturers and retrofit/repair businesses. The Company's revenues over the last eight quarters were as follows: $3,071,130 for the quarter ended December 31,2015,$4,370,567 for the quarter ended September 30,2015, $4,596,741 for the quarter ended June 30,2015, $6,871,684 for the quarter ended March 31,2015,$6,751,794 for the quarter ended December 31, 2014, $5,936,597 for the quarter ended September 30, 2014, $5,648,384 for the quarter ended June 30, 2014 and $5,480,034 for the quarter ended March 31, 2014. The Company's net income/loss over the last eight quarters were as follows: net loss of $2,283,515 for the quarter ended December 31, 2015, net loss of $661,263 for the quarter ended September 30,2015, net income of $105,083 for the quarter ended June 30,2015, net income of $328,869 for the quarter ended March 31,2015,net income of $762,321 for the quarter ended December 31, 2014, net income of $959,039 for the quarter ended September 30, 2014, net income of $1,080,846 for the quarter ended June 30, 2014 and net income of $1,223,575 for the quarter ended March 31, 2014. The Company also believes that the management team has improved the Company's business reputation and gained the confidence of the railroad and investment community by making deliveries on time and satisfying payment obligations on time, which was not always the case before the Company's current management came on board.

The Company believes that it continues to build a quality brand in the railroad industry based on its reputation to create, develop, engineer and reliably supply technology and product solutions that address the demanding technology criteria of our railroad customers. The Company brings new technology to the railroad industry which has historically been slow to develop. Specifically, the Company designs products that are aimed at reducing the risks associated with transport of non-hazardous and HAZMAT commodities in the railroad industry, and the Company attempts to solve problems that have been persistent in the market for years. For example, the Company's BOV design is a response to numerous industry requests to develop a better bottom outlet valve, and the Company believes its BOV design is an improvement on the standard bottom outlet valves. Two years ago, the Company asked several key customers about their needs. Several of these customers, including Trinity Industries, Inc. and

Potash Corporation of Saskatchewan Inc., asked the Company when it was going to design a bottom outlet valve. Due to its AAR committee work, the Company also knew that the existing bottom outlet valves had leak problems and corrosion issues. When the Company announced its BOV design, several companies volunteered to do the service trial. In the past four years, the Company believes that it has successfully gained the railroad industry's confidence, approval and their willingness to adopt its products as evidenced by increased revenues from sales and by AAR approvals and certifications for the Company's products. There is no guarantee that the Company's customers who have inquired about BOVs or that the companies who have volunteered to do the BOV service trials will purchase the Company's BOV products.

<u>*Three Year History*</u>

2013

In March 2013, the Company announced that it entered into a joint sales and marketing agreement with Bulk Tank Inc. ("**BTI**"), a trucking industry supplier, whereby BTI and the Company would market each other's products to their respective customer bases. BTI is the number one supplier by sales volume and quality for pressure differential trailers in the trucking industry. Pursuant to this agreement, the Company agreed to market BTI's products in the rail industry in the United States, Canada and Mexico and BTI agreed to pay the Company a fee equivalent to any mark-up charged to its end customers on sales brought to BTI by the Company upon payment by such end customers, and the parties agreed that all orders for BTI product would be placed directly with BTI and that the Company would not take possession of the goods at any time. The mark-up payable to the Company is typically 30% of the selling price which is determined by BTI. Amounts are payable each quarter that the product has shipped. The term of the agreement is for one year ending March 12, 2014, which term may be automatically renewed for additional one year terms, subject to earlier termination. The agreement may be terminated by providing at least 30 days' notice prior to the end of the initial or any subsequent term. As of the date of this filing, the Company has been paid $11,384 for sales of BTI's products. The Company does not believe that this agreement is material. Also in March 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 May 2013, the Company reported that it successfully completed independent testing of its KKM. This evaluation was the last stage of qualification of the KKM for railroad use and confirmed that the KKM is a leading technology product when compared to similar "legacy" technology products currently in use in the industry. The Company is ready for commercial production of its KKMs, and upon receiving orders will 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 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. Also in June 2013, the Company received its M-1003 certification.

In September 2013, the Company reported that its new JS330 EPRV for pressure tank cars had been successfully pressure and flow tested and confirmed by an independent AAR approved engineering test facility in Colorado. Our JS330 is a derivative of our existing EPRV patent and meets the performance specifications and regulatory requirements for pressure tank cars. It is designed for demanding applications in the transport of pressurized commodities such as propane and anhydrous ammonia. A patent application is in process. Kelso has applied to the Association of American Railroads for an application number and service trial approval. It is anticipated that the service trial will commence in mid 2015 and be completed in two years.

In October 2013, the Company reported that the Tank Car Committee ("**TCC**") of the AAR has cleared the KKM for unrestricted commercial use. The Company agreed to continue to report on those KKM units in the original FST for a one year period using the FST format, and to keep the TCC apprised of all commercial KKM installations in terms of number of units and in what service they are being used.

In November 2013, the Company reported that it had reviewed the performance characteristics of its KKM with loading terminal operators and management at the Bakken Oil Fields in North Dakota. The review confirmed that there are several compelling economic advantages and arguments for the commercial adoption of the KKM. See “Key Products” for additional information on the economic advantages and arguments for the commercial adoption of the KKM. Also in November 2013, the Company reported that it intends to commence construction of its new production facility in Bonham, Texas in December 2013. Construction on this new facility began in February, 2014. The new facility will be approximately 44,000 square feet and is expected to be completed in June of 2014. The facility is expected to cost approximately US$2,400,000 which the Company plans to fund through its internal capital resources. The Company also reported that effective December 13, 2013, its headquarters in the United States was moved to 2777 Finley Road, Suite 15, Downers Grove, IL 60515.

In December 2013, the Company reported that the SEC completed its review of the Company’s Registration Statement on Form 20-F and that the Company became registered as a reporting issuer under the United States Securities and Exchange Act of 1934.

2014

In February 2014, the Company reported that it has filed a patent application for a new externally mounted dual rating pressure relief valve (“**DPRV**”) design for use on new rail tank cars and retrofits of existing rail tank cars that are in Packaging Groups 1 & 2 (US Bureau of Explosives designations) which include all tank cars carrying crude oil and ethanol as well as other flammable chemicals. In general terms, in an accident involving fire, the DPRV is intended to lower its operating pressure rating to a level that will keep the valve open in order to evacuate the tank car in less than 100 minutes as required by AAR recommendations. The Company believes, based on management’s knowledge of current industry standards and other products on the market that the DPRV is a significant change compared to currently available technology, and that the DPRV will provide economic advantages to the impact of the expense of retrofits facing the railroad industry. The patent has been filed under a “non-Publication Request” which keeps the patent filing private until the patent is issued. This has been done for competitive reasons. The Company expects the DPRV to enter the AAR approval process shortly after the prototypes are completed, which management expects to be done in May 2014. The final patent is expected to take two years or more to be granted and to carry a 17 year life starting from the date the patent is granted.

In March 2014, the Company reported that it has formed a strategic business and engineering alliance with SafeRack Loading Rack Technologies (“**SafeRack**”) with the goal of incorporating the Company’s KKM technology as part of a new generation of high-capacity crude oil loading terminal systems designed and provided by SafeRack. The Company believes that SafeRack is the leading expert in crude oil and liquid natural gas loading terminal engineering, procurement and construction services for the railroad and trucking industries based on the knowledge of management of the Company of such industries. Under this arrangement, the Company and SafeRack have developed and tested a fully functional loading arm adaptor that fits both the KKM and hinged 6 and 8 eye-bolt manway currently in service on tank cars in North America. The Company and SafeRack are also educating HAZMAT shippers on the economic advantages and operational benefits for the commercial adoption of the KKM. The Company does not believe that its arrangement with SafeRack is material.

In April 2014, the Company declared an annual cash dividend of US$0.01 per share on outstanding common shares of the Company as of the record date of April 15, 2014. The dividend was paid on April 30, 2014.

On May 22, 2014 the common shares of the Company commenced trading on the TSX under the trading symbol “KLS”.

On June 4, 2014 the shareholders of the Company re-approved a shareholder rights plan pursuant to an agreement between the Company and Computershare Trust Company of Canada dated February 3, 2011.

On June 4, 2014 the shareholders of the Company approved the Company’s 10% rolling stock option plan.

On July 1, 2014 the Company occupied the new 44,000 sq. ft. manufacturing facility in Bonham, TX. Production was fully consolidated in the new facility as of September 30, 2015. The 6,000 sq. ft. facility adjacent to the new manufacturing facility and previously used for manufacturing is now a product development and customer training center.

On October 8, 2014 the Company filed a patent application for the VRV. Service trials for the VRV are expected to start in 2015. The VRV valve design applies the constant force spring technology used in all of our pressure relief valves. The patent application was filed on 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.

On October 14, 2014 the common shares of the Company commenced trading on the NYSE MKT under the trading symbol “KIQ”.

In November, 2014 the Company increased engineering manpower in November by 40% to increase the speed of product development.

On December 2, 2014 the Company received its first commercial 100 tank car unit train order featuring both the pressure relief valve and one bolt manway.

On December 4, 2014 the AAR approves JS165H high-flow pressure release valve for commercial applications after completing its two year field trials.

2015

On January 2, 2015 Mr. Phil Dyer was appointed to the Board of Directors and Mr. Anthony Andrukaitis was appointed Executive Vice President of Business Development.

In April 2015, the Company declared an annual cash dividend of US$0.03 per share on outstanding common shares of the Company as of the record date of April 15, 2015. The dividend was paid on April 30, 2015.

On April 23, 2015 the Company completed the commercial design and internal testing of its new innovative bottom outlet valve (BOV). The Company has submitted the final required application information to the Association of American Railroads (AAR) for service trial testing and the eventual commercial approval of the BOV.

On June 4, 2015 the shareholders of the Company appoint John R. O’Neill to the Board of Directors at the annual general meeting held in Vancouver, British Columbia, Canada.

On June 23, 2015 the Company reported that the Association of American Railroads (AAR) has approved the Company’s new vacuum relief valve (VRV) design for commercial field trial testing. The VRV is a low pressure device specifically designed to protect rail tank cars from the effect of an excessive vacuum preventing the implosion of the tank car.

On July 7, 2015 the Company announced that it has completed its production infrastructure to produce our Kelso Klincher® Manway (KKM) and the Company’s proprietary loading rack adaptors at volume levels that can meet the supply demands of tank car producers (OEM), shippers and tank car owners.

On August 18, 2015 the Company receives the approval of the Association of American Railroads (AAR) for the Company’s new bottom outlet valve (BOV) design for commercial field trial testing. Bottom outlet valves are utilized on rail tank cars for the primary purpose of unloading the contents of the tank. The BOV must be a low-profile design as it is positioned at the lowest point of the tank so that a full discharge of the tank can be achieved. They are widely used in the transport of hazardous commodities such as crude oil, ethanol, chemicals, petrochemicals and minerals such as molten sulfur as well as many non-hazardous commodity applications.

On September 16, 2015 the Company established a Strategic Alliance (Alliance) with Carolina Seal Inc. (CSI) to offer the industry an unprecedented one year seal warranty program for the Company’s pressure relief valves (PRV).

CSI is a long time supplier to the Company and an industry leader in engineered sealing solutions for containment equipment used in railroad systems. The one year warranty program will apply to all new orders. CSI will maintain an inventory of pedigree materials to support PRV new tank car installations, re-qualifications, retrofits, improvement orders and repairs. The Alliance is a key arrangement that strengthens our safety, reliability and technology innovation for our line of pressure relief valves. Carolina Seal is a founding member of the Ride Tight® Program with its partner VSP Technologies. The concept of the Alliance is to deliver outstanding value to customers with the first one year seal warranty ever offered in the rail industry.

On September 17, 2015 Canada’s preeminent media brand Canadian Business and PROFIT has ranked the Company third on its 27th annual PROFIT 500 list – the definitive ranking of 500 of Canada’s Fastest-Growing Companies.

On September 23, 2015 the Company establishes an in-house inspection and re-certification service for our pressure relief valves (PRV) due to high customer demand. It is customary in the railway industry that every 5 years a PRV in service should be inspected, repaired or retrofitted, and re-certified for commercial service.

On September 30, 2015 the Company announces that all participants in the service trials of the Company’s new vacuum relief valve (VRV) have installed the VRV and begun testing. The VRV is a device specifically designed to protect rail tank cars from the effects of excessive vacuum which can cause implosion of the tank car.

October 28, 2015 the Company received United States Patent Number: 9,163,738 for the unique design of the Company’s new high pressure constant-force spring pressure relief valve (HPRV) for specialized use in the “Pressure Tank Cars” category of the rail tank car market. The Company’s HPRV is a derivative of the Company’s existing PRV patent and meets the performance specifications and regulatory requirements for pressure tank cars. It is designed for demanding applications in the transport of pressurized commodities such as propane and anhydrous ammonia. The new HPRV will be offered in 225PSI, 247PSI, 280PSI, 300PSI and 330PSI ratings.

On December 2, 2015 the Company launches an innovative solution that will help address the challenges associated with sealing material identification. In conjunction with our previously announced Strategic Alliance with Carolina Seal Inc., seals used in Company’s pressure relief valves (PRV) will incorporate a “Compound Authentication Procedure” (CAP). The CAP is believed to be the first and only such procedure for seals in the rail industry today.

Capital Expenditures

The Company has no capital expenditures planned at this time nor does it have any divestitures planned.

Takeover Offers

The Company is not aware of any indication of any public takeover offers by third parties in respect of our common shares during our last financial year or current financial year.

B. ***Business Overview***

The Company is a railroad equipment supplier that produces and sells proprietary tank car service equipment 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 60 products. The key products that the Company offers include a series of 47 types of EPRVs for pressure management; 4 types of KKM manway securement systems, 4 types of bottom outlet valves (BOV), 4 types of vacuum relief valves (VRV); and 1 ETS product that address the technical requirements of load and unload operations and the containment of non-hazardous and 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 Company has obtained patents for its EPRV (Patent No. 5,855,225) and KKM (Patent No. US 7,104,722 B2), but the patent for the Company’s ETS technology has expired. The Company has filed patent applications under non-Publication Requests for a new BOV design and for the DPRV. See "Risk Factors – Risks Relating to the Business" for additional information on patents for the Company's product. See "Key Products" below 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, receives feedback from key customers on new products to add to the Company's catalogue and considers, and where appropriate incorporates, this customer feedback into product development decisions. The Company does not have any agreements with its customers in this regard.

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.

The Common Shares are publicly traded on the TSX under the trading symbol "KLS" and on the NYSE MKT under the trading symbol "KIQ".

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.

Markets

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 BOV, the VRV, the KKM and the EPRV. 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.

The Company's total revenue for the past three financial years is attributable by key product and by geographic region as follows:

Year Ended	Total Revenue (audited)	Key Product			Geographic Jurisdiction	
		ETS (unaudited)	KKM (unaudited)	EPRV (unaudited)	United States (unaudited)	Canada (unaudited)
December 31, 2013	$13,131,387	$64,975 (0.5%)	Nil (0%)	$13,066,412 (99.5%)	$13,131,387 (100%)	Nil (0%)
December 31, 2014	$23,816,809	$46,097 (0.2%)	151,027 (0.6%)	$23,569,460 (99.2%)	$22,875,589 (96%)	941,220 (4%)
December 31, 2015	$18,910,122	$5,480 (0 %)	$1,678,092 (9%)	$17,226,550 (91%)	$16,950,239 (89.6%)	$1,959,883 (10.4%)

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. However, there is no guarantee that the Company will be successful in achieving these goals.

New additions to the M-1002 and Federal Regulations (CFR 49) in the US as well as Transport Canada regulations have been mostly driven by need to improve safety, protect the environment from accidental spills. The recent tragic accident~~s~~ at Lac Mégantic, Quebec and other incidents in several locations in Canada and the US have further driven regulations to improve safety all around as evidenced by the new regulations issued by Transport Canada and PHMSA in May 2015. These new regulations are the final rules covering construction requirements for tank cars carrying flammable commodities (DOT 117), timetables for phase–out of tank cars not meeting the new rules and management of high-hazard trains. The Company believes that these new rules provide opportunity for the company as new cars are built to replace older cars and some older cars are retrofitted to meet the new rules. These new rules were influenced by the AAR Tank Car Committee who convenes task groups to address tank car safety and use. The AAR Tank Car Committee has approximately 44 active task groups to address safety, environmental/social concerns of which Kelso is active on four.

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

- experienced executive management, including directors and officers with several years of business experience as described under "Directors and Senior 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 that moves away from historical products to significantly different technology;
- 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" as evidenced by increasing revenue from sales of the Company's products and adoption rates for the Company's products in the marketplace;
- reliable order base from customers to fuel predictable profitable business growth; and
- production infrastructure and capacity that can supply demand.

Although still a small enterprise, the Company believes that it is at the forefront of technology development for the railroad industry because it has developed products using new technology which are designed to address current industry and customer demand and which replace products that are based on technology which was developed in some cases over 80 years ago. The Company's business model is focused on becoming a leader in the design and supply of new technologies aimed at worker safety and the safe handling and containment of hazardous materials in transportation systems.

Key Products

The Company currently offers approximately 60 products. The key products that the Company offers, as summarized below, include a series of 47 types of EPRVs for pressure management; 4 models of the KKM manway securement system, 4 Bottom Outlet Valve (BOV) models, 4 Vacuum Relief Valve (VRV) models; and 1 ETS product that address the technical requirements of load and unload operations and the containment of hazardous commodities during transport. Products are designed for use on applications on railroad tank cars but can be modified for use in other markets such as trucking. The Company has patent protection for its EPRV and KKM and has applied for patents on its BOV and VRV products. See "Risk Factors – Risks Relating to the Business". In addition to current product offerings, Kelso Innovative continues to work on new products to add to the Company's catalogue by incorporating customer feedback into product development decisions.

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 47 versions of EPRVs in its product line, including a number of high-performance EPRVs. As required, the Company's series of EPRVs have received AAR approval based on service trials and physical testing. The Company believes that its series of EPRVs are "best available technology" products and proprietary to the Company. The Company believes 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 proven high flow valve in market that is totally external, which limits exposure to chemicals or other corrosive substances transported in the tank car. Based on the Company's knowledge, there is only one other totally external valve on the market that meets the high-flow requirement (a minimum flow of 27,000 scfm@75psi) which is an external helical spring valve sold by Fort Vale Manufacturing; there may be other manufacturers of external high flow valves that the Company is not aware of);
- technological improvement over older valve systems as it eliminates the helical coil spring, the internal valve stems and spring guide tube;
- the introduction of multiple springs, thus preventing the disruptions that occur with existing single-spring designs that become completely inoperable when the single spring fails;
- increased valve reliability due to little or no contact with non-hazardous and HAZMAT commodities;
- 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.

See "Information on the Company – Business Overview – Competitive Conditions" below.

"Kelso Klincher®" Manway (KKM)

The Company holds the patent rights for a new manway technology trademarked as the "Kelso Klincher®". The Company believes the KKM is a technology change for the railroad industry where the return on investment and arguments for customers' adoption of the KKM are compelling. The Company believes they include:

- one bolt-and-strap design eliminates eye-bolt problems and possible leaks due to crushed gaskets (the strap system design applies uniform force on the gaskets when they are drawn together to secure the lid, whereas the eye-bolts point load the gasket at each eye-bolt location which can crush the gasket during securement. The absence of eye-bolts on the Company's KKM is obvious simply by looking at pictures of the old and new manways; since the Company's KKM does not have eye-bolts the Company has eliminated them as a problem;
- eliminates lid deformation and nozzle distortion due to the over-torque of eye-bolts;
- eliminates relaxation of gaskets under eye-bolt location (the strap system uniformly loads the gasket which can cause a leak;
- reduces eye-bolt nuts loosening in transit due to vibration and improper cross-bolting technique, which can result in a $5,000 fine imposed by FRA for every loose eye bolt (loose eye-bolts have many causes including: failure by employees to tighten, improper torque procedure, damaged eye-bolt, much of which is due to employees not following procedures; we believe that our single-bolt design substantially reduces the risk of errors due to employee error; it is standard practice for an FRA field inspector to inspect for loose eye-bolts on a manway by climbing on top of a tank car, standing in the center of the manway and actually kicking each eye-bolt to see if it is loose; since the Company's KKM does not have eye-bolts there is nothing for the field inspector to kick; the Company's tee-bolt is protected by a handle and cannot be kicked as it is not accessible to the foot of the inspector
- standard AAR-approved gasket retention method with currently used hard and soft gaskets;

- ACME Thread on T-Bolt virtually eliminates loosening due to vibration (this type of thread is typically used on ships where vibrations are constant; this is a well-known design feature of ACME threads);
- rigid collar at top of nozzle reduces risk of nozzle distortion;
- much faster opening and closing operation with one bolt management system, considering the industry recommended practice generally takes approximately 25 to 35 minutes as documented in AAR Pamphlet 34 whereas the KKM procedure takes approximately 5 minutes;
- increases daily terminal loading capacity up to 32%, thus increasing revenues of terminal operations that are paid by the volume of oil loaded and shipped (confirmed by loading terminal operators and management at the Bakken Oil Fields);
- uniform load on the gasket prolongs service life as evidenced by field service experience;
- reduces possible release of hazardous commodity in a roll-over accident by moving threaded closing mechanism below the plane of the lid; and
- the KKM comes in 3 models which include various levels of stainless steel construction for corrosion prevention to meet specific customer needs.

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.

Kelso Bottom Outlet Valve (BOV)

The Kelso quarter-turn ball-style BOV is designed to substantially improve field performance. Most general service tank cars have a quarter turn ball-style BOV with a stainless steel ball used for unloading the tank car. The existing deigns are plagued with problems with seal leaks due to debris contamination damage, damaged balls due to physical abuse or corrosion, leaks at the valve stem and excessive torque to open a valve. When a BOV experiences a leak, it must be removed from the tank car for repair. This is a costly operation that takes the tank car out of service for at least 45 days. The new Kelso ball-style BOV addresses these problems with new technologies:

- The ball is made from a high-strength ceramic material that is 10X harder than stainless steel which will virtually eliminate damage due to abuse.
- The ceramic material is very resistant to chemical attack thus virtually eliminating corrosion on the ball.
- The valve design includes a ceramic wiper that wipes the ball as it is rotated to remove debris contamination thus protecting the valve seals from damage.
- The valve stem is designed to use a spring-loaded seal that compensated for seal wear thus reducing the likelihood of a stem leak.
- The wiper action substantially reduces the torque to open and close the valve making it easier to operate.

The Kelso BOV is expected to substantially reduce the risk of a leak and offer tank car owners a more cost-effective product. The Kelso BOV is currently approved for AAR field service trial. Patent applications for the valve are in process.

Kelso Vacuum Relief Valve (VRV)

Most general service tank cars have a vacuum relief valve installed to prevent tank car implosion due to excessive vacuum in the tank car. This can be caused by using an evacuation pump to unload the car or temperature change on an empty tank car. The current designs use a very weak helical spring for actuation. This weak spring can allow the valve to open even during transit and suck in debris which contaminates the valve seal causing the leak. This has been a very severe problem especially on crude oil tank cars. Customers have pressed Kelso to design a VRV to address this problem.

The Kelso design uses its constant force spring technology to provide a stronger spring to reduce possible leaks. The spring is housed in a protected environment to protect it from the environment. The Kelso VRV is currently in AAR field service trials. Patent applications for the valve are in process.

Production and Services

The Company operates one 44,000 sq. ft. production facility and one 6,000 sq. ft. engineering development facility both 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 approximately 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. The Company believes that cast and fabricated components of the Company's products are being sourced from expert certified suppliers because AAR regulations require the Company to certify that each major supplier meets the Company's QA requirements which are driven by M-1002 and M-1003. This is a matter of record as the Company must have an AAR B1 form on file showing the supplier is approved by the Company. The Company requires that the suppliers have current equipment and that the suppliers' employees have proper training certifications, including certifications for welding. Having a current AAR Form B1 for each major supplier is an audit item for the Company's M-1003 certification. Suppliers of major metal components must provide mill certificates per AAR M-1003 for the materials proving they are sourced from US or Canadian suppliers or other locations approved by the Company. The Company believes that by using certified suppliers, the Company minimizes expensive capital layouts for manufacturing equipment and certified human resource expertise, which in turn 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 believes it has engaged individuals with extensive production expertise with the overall goal of attaining economic, effective and efficient assembly operations. The Company's internal audit requirements require that individuals performing critical operations for component parts must have demonstrated a minimum of five years' experience with similar production procedures.

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 OEMs, that produce new tank cars. The other is the railroad retrofit and repair market. Both market segments continue to be developed by the Company, but management has been making decisions about the operating matters of the Company based on the OEM market as OEMs constitute the largest portion of the Company's customer base. Management has established key strategic relationships with the Federal Railroad Administration of the United States (FRA) and Transport Canada, both of which have requested that the Company participate in and present at FRA and Transport Canada training seminars throughout North America. The Company is a member of the AAR, Chlorine Institute, Canadian Rail Supply, the Canadian Association of Railway Suppliers and Railway Supply Institute (RSI) and management has established key strategic relationships with other influential members of the railroad community including the FRA and Pipeline and Hazardous Materials Safety Administration (PHMSA). These key strategic relationships have resulted in the Company coordinating its actions with FRA, and working especially with the FRA to ensure its products meet regulations and provide better technology. The Company believes that it is well connected to the Safety and HAZMAT sections of the Class I railroads, such as BNSF Railway, Union Pacific Railroad, Canadian National Railway, CSX and Canadian Pacific Railway, by virtue of the Company meeting with the Safety and HAZMAT security representatives for the Class I railroads. The Company has provided valves and manways to install on most of their training cars, and the Company joins them on customer and first-responder training sessions at their request.

The Company has also implemented educational marketing initiatives whereby the Company sends representatives and speakers to industry seminars and trade shows and to customer sponsored training seminars specific to customer locations.

The Company believes that its 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.

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 non-hazardous and HAZMAT commodities via rail and road. Kelso Innovative works closely with non-hazardous and HAZMAT commodities 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. The Company expects some new products to be approved by the AAR in time for sales in 2016. Testing and development costs are not material. However, there is no guarantee that such products will have significant market prospects or that they will be successfully developed, introduced and adopted commercially. The Company's pressure relief valve for high-pressure tank cars designed to carry liquefied compressed gas is currently in testing and applications are expected to be made to AAR for service trials in 2016. The Company's BOV and vacuum relief valve are currently in field service trials. See "Business Overview".

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 believes that it 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 believes it has engaged individuals with extensive production expertise because its internal hiring standards require that individuals performing critical operations for component parts must have demonstrated a minimum of five years' experience with similar production operations. The Company has also engaged a management team with extensive experience managing public companies. See "Directors, Senior Management and Employees". 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 design and supply of railroad service equipment and uses patented technology to develop proprietary commercial products. As at the date of this filing, the Company's main competitors are Midland Manufacturing of Chicago, Illinois, Fort Vale and Union Tank Car Company of Chicago, Illinois. The Company believes its EPRV product line has advantages over the competitors' internal and external pressure valve products offered by competitors as described under “Key Products”. ESI Inc., an independent firm based in Aurora, Illinois, which reviewed the Company’s KKM against competitive products determined that the Company’s KKM was the best available manway in its report dated May 6, 2013 titled “Hazard Analysis Kelso Technologies Klincher® Manway”. 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 delivery of purchase orders and strong customer service.

Raw Materials/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 prices which are within the Company’s budget for such parts. Most materials used to assemble the Company’s products are commodity raw materials such as steel and rubber. These materials are subject to price fluctuations which the Company believes have historically been modest based on commodity prices for these materials. As Company does not have any long term contracts with its suppliers, it is able to mitigate the effects of such price fluctuations by adjusting product pricing based on the price of commodity raw materials at the time a purchase order is placed. See “Risk Factors” for a discussion of the risk factors associated with price fluctuation for raw materials.

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 does not have a patent for its ETS technology. The Company applied for a patent on June 3, 2013 under a “Non-Publication Request” for its new BOV, on January 6, under a “non-Publication Request” for its new DPRV2014 and on October 8, 2014 for its new VRV under a “non-Publication Request”. The granting of the final patents for the BOV, VRV and DPRV are expected to take two or more years, and if granted, are expected to have a lifespan of 17 years from the date of grant. See “Information on our Company – History and Development of our Company – Three Year History – 2013” for additional information on “Non-Publication Request”.

These patents and trademarks are critical to the Company’s success as they provide a significant advantage to the Company over its competitors. See “Risk Factors” for a discussion of risk factors relating to the Company’s intellectual property and competition.

Seasonality/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 expired on 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 is optimistic about its future as a railroad equipment supplier, the Company is dependent upon a limited number of customers for a significant portion of its revenue. The Company does not have any formal agreements for long term, large-scale purchase orders from its existing customers; however, the Company believes that it maintains good relationships with its customers to maintain its status as a preferred supplier of EPRV, KKM and 1 ETS product. The Company is a preferred supplier for Trinity and ARI as evidenced by the Company's EPRV becoming recommended standard equipment on a series of their railroad tank cars used primarily for ethanol and crude oil transport. Trinity is the number one tank car manufacturer in North America, while ARI is the number three tank car manufacturer in North America. This designation is significant because the Company is listed as standard and not optional equipment for tank cars of Trinity and ARI destined for crude oil and ethanol service by these customers.

The Company currently services all five of the OEM producers of rail tank cars and is aware of the new tank car builder OEMs entering the market. Purchase orders from these and other customers continue to be submitted to the Company for its products. The Company's purchase orders are subject to the general terms and conditions imposed by the Company. The general terms and conditions provide that all payments from customers are due and payable 30 days from the date of invoice, provided however, that the Company has the right to require payment before shipment or payment via letter of credit in the event that the Company determines the buyer is delinquent in payment or will exceed its credit limit. Orders in process are subject to cancellation charges as determined by the Company. The extent of work performed at the time of cancellation will govern the amount of the charge.

Employees

As at December 31, 2015, the Company has 42 employees (December 31, 2015 – 42 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 Surrey, 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.

Government Regulations

The railroad transportation industry is highly regulated by governments. In both the United States and Canada, governments regulate, among other things, transportation of non-hazardous and HAZMAT commodities as well as rail safety. The primary regulatory body in the United States for the railroad transportation industry is U.S. Department of Transportation and its Federal Railroad Administration, PHMSA and in Canada is Transport Canada. The Company endeavours to develop all of its products and operate its business in compliance with all applicable government regulations and testing requirements. The Company certifies its products on an ongoing basis in accordance with AAR guidelines and government regulations. As the Company assembles its products rather than manufactures them, the Company is not subject to any environmental regulations other than the standard water and sewage regulations.

*C. **Organizational Structure***

We have 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. See "Information on our Company – History and Development of Our Company".

D. ***Property, Plants and Equipment***

The Company operates one production facility totaling approximately 44,000 square feet and one engineering development facility totaling 6,000 square feet both in Bonham, Texas. The Company also operates an administration office in Downers Grove, Illinois. 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. See "Business Overview" for additional information regarding our facilities, including a discussion of the productive capacity and extent of utilization of our facilities and products produced. To the best of our knowledge, there are no environmental issues that may affect our utilization of our assets.

As at December 31, 2015, the total carrying value for our property, plant and equipment was $3,396,893 (December 31, 2014: $3,396,922), the breakdown of which is as follows: land - $12,558 (December 31, 2014: $12,558), buildings - $2,762,440 (December, 2014: $2,859,616), leasehold improvements - $19,080 (December 31, 2014: $23,850), production equipment - $595,306 (December 31, 2014: $490,172), and vehicles - $7,509 (December 31, 2014: $10,726).

At the time of this filing, the Company has no new plans for further acquisition or construction of new buildings as management feels that our current space will handle all capacity issues in the year.

Item 4A. Unresolved Staff Comments

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations for the years ended December 31, 2015 ("**Fiscal 2015")**, December 31, 2014 (**"Fiscal 2014") and** December 31, 2013 ("**Fiscal 2013**") should be read in conjunction with our financial statements and related notes included in this annual report in accordance with "Item 8 – Financial Information". Our financial statements for Fiscal 2015, Fiscal 2014 and Fiscal 2013 (collectively, the "**Reported Periods**") were prepared in accordance IFRS.

In April 2010 a new management team was brought in to help rejuvenate the Company which at that time was in poor financial health and had few business opportunities. Revenues have been: Fiscal 2013 $13,131,387, Fiscal 2014 $23,816,809 and Fiscal 2015 $18,910,122. At the same time the gross profit margins have been; 40.4% for Fiscal 2013, 46% for Fiscal 2014 and 27% for Fiscal 2015. Revenues for Fiscal 2013 and 2014 grew steadily due to the increased demand from crude oil suppliers for new tanker cars with which to move their product. This demand caused OEM manufacturers to increase their production of tank cars. Revenues for Fiscal 2015 decreased due to a significant drop in oil prices which in turn lessened demand for crude oil tank cars. Management expects that this decrease in demand for more profitable valves for crude oil tank cars will continue for the foreseeable future. Our gross profit for Fiscal 2013 and Fiscal 2014 increased due to economies of scale and also due to a product mix that sees the industry ordering stainless steel EPRV's in an attempt to reduce the corrosive effect of the sulphur content of the crude oil that is being transported. The gross profit for Fiscal 2015 declined due in part to a pricing conflict brought on by a foreign competitor as well as the introduction of our KKM manway system which had higher than expected start up costs. Our administrative costs were $389,285 per month for Fiscal 2014 and have since risen to $463,888 (excluding share-based payments) per month for Fiscal 2015. These costs have risen due to the general costs associated with an expanding business. Management is realigning its business model and believes that these costs will reduce over the ensuing year as the overall demand in the sector is anticipated to be flat for the upcoming year. There have been no unusual or infrequent events that have affected the Company directly with the exception of the decreased demand for tank cars attributable to the commodity prices in the crude oil industry.

See "Item 17 – Financial Statements" and the notes to the financial statements enclosed herewith for a discussion of the significant accounting policies and significant estimates and judgments required to be made by management.

A. ***Operating Results***

The financial results for the Reported Periods are indicative of an industrial railroad equipment supply company transitioning from a product development organization to a profitable business enterprise that distributes commercial products from a high production infrastructure that can reliably supply to a heavily regulated railroad industry. The growth in revenues, corresponding expenses and resulting earnings reflect the Company's successful progress in the execution of its business plan. The steady growth of sales and distribution of our products to the larger OEM segment of the rail tank car industry began in April 2012. Financial results reflect the costs and investments associated with ongoing product development and the expansion of our production capacity (including equipment, lease costs, training and qualifying human resources) in advance of higher profitable sales levels. The strategic plan for commercialization has also required the Company to make considerable ongoing investments in production infrastructure; industrial engineering and testing; railroad regulatory filings; liability insurance; and new market initiatives. The majority of these costs are written off in the period when they occur and reflect in the reported profitability of the Company in the period in which they were incurred.

The Company saw rapid growth for Fiscal 2013 and 2014 but Fiscal 2015 saw decreased revenues and profits as a result of a decrease in demand from the crude oil sector, competitive pricing issues as well as bringing on the KKM manway securement system with all the production costing issues that are usually associated with a new product. Revenues have grown steadily from $13,131,387 in Fiscal 2013 to $23,816,809 in Fiscal 2014. Fiscal 2015 saw a decline in revenues to $18,910,122. The greatest increase in units sold has been realized in Fiscal 2014 as the OEM manufacturers have been receiving orders from crude oil producers for more hazardous tanker cars to move their product. Fiscal 2015 saw a marked decline in orders from crude oil producers for our EPRV and the Company believes that this decreased demand will continue for Fiscal 2016. The Company saw more orders for stainless steel EPRV's in Fiscal 2013 and Fiscal 2014. This is evidenced by the gross profit increase to 40.4% for Fiscal 2013 and 46% in Fiscal 2014. The margin on stainless steel valves is better than the margin on the conventional carbon valve. However Fiscal 2015 saw margins shrink to 27% as the Company encountered issues with pricing as well as a sector with lower demand than prior years due to a slowdown in the oil sector. EPRV's for the crude oil sector yield a greater margin than those valves sold to other sectors. Our administrative costs have increased due to the necessity of increased marketing to keep our products in the forefront of the industry as well as the added costs of running a public company on two exchanges. In addition the Company has spent considerably extra funds on the development of new products which will expand our product line. For Fiscal 2013, 2014 and 2015 our monthly overhead costs were approximately $240,000, $389,285 and $463,888 respectively. Our net income or loss is a result of the previous factors. During Fiscal 2015 we recorded a write-off of intangible costs of $298,484. In addition the Company conducted a tax review to determine the Company's exposure to US tax. For Fiscal 2015 the Company has recorded a net tax expense of $1,104,088. This expense pertains mainly to prior years and is net of the taxes that the Company has already paid to the Canadian government. The Company is pursuing other measures that may result in significant recoveries in the near future. The Company showed a profit for Fiscal 2013 ($2,456,636) and Fiscal 2014 ($4,025,781). Fiscal 2015 reported a loss of $2,510,826. Prior to these reporting periods the Company had been incurring losses.

Management cautions that the infrastructure of the railroad industry poses many challenges to the development and adoption of our products. Economic and regulatory uncertainty could have a material effect on our current or future business including financial condition and results of operations. The Company is still in the early stages of implementing its commercial business plan hence there are financial risks inherent in the Company's business plans. This includes a lack of assurance that a profitable market for the Company's industrial products will continue to develop. Other risk factors may include the adverse effects of raw material costs; competition; and environmental and regulatory issues if government regulations change in the future. See "Risk Factors".

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

For Fiscal 2015, the Company reported net loss of $2,510,826 ($0.05 per share) against revenue of $18,910,122 compared to a net income of $4,025,781 ($0.09 per share) against revenue of $23,816,809 for the year ended December 31, 2014. The Company's gross profit percentage has decreased to 27% as a result of lower sales prices and low production rates due to a decrease in sales of stainless steel EPRV's in Fiscal 2015.

Net loss and comprehensive loss for Fiscal 2015 was $2,510,826 after deducting non-cash working capital items. In accordance with IFRS, reported income includes items not involving cash. These include amortization of $237,201, share based payments (Black-Scholes) of $672,533 and deferred income tax recovery of $86,932.

Factors in the reported income for Fiscal 2015 include expenses of $118,693 (Fiscal 2014-$128,806) related to the lease costs of production and headquarter facilities in Downers Grove, Illinois and Bonham, Texas; and on-going industrial product design and development costs of $783,680 (fiscal 2014- $440,600). The Company started the current fiscal year with two engineers in this division but added two more engineers in Fiscal 2015. This has added to our design and development costs.

Other key costs include production infrastructure; human resource education; and marketing related expenses for products that have not yet seen sales results. For Fiscal 2015 salaries and benefits increased to $368,112 (Fiscal 2014 - $245,430). The Company employs eight administrative people in this area as compared to five for the comparative period. Executive management contract fees have increased between Fiscal 2014 ($540,000) and Fiscal 2015 ($727,217). This is due to the addition of one more executive member. In Fiscal 2015 there was not an executive bonus but Fiscal 2014 saw a bonus of $694,767. This bonus was pursuant to each officers' management contract. The Company's consulting fees have risen to $548,471 for Fiscal 2015 (Fiscal 2014 - $460,680). During Fiscal 2015 the Company retained one investor relations party, two administrative support persons and one web-site/communications consultant. In addition this account includes transfer agent and filing fees which rose due to our filings with the Securities and Exchange Commission and due to the listing of the Company's common shares on the TSX in Canada and on the NYSE MKT.

Business growth expenses included marketing costs of $730,389 (Fiscal 2014 - $571,990) and related travel costs of $445,555 for Fiscal 2015 (Fiscal 2014 - $290,400). The Company's marketing efforts have increased substantially in an attempt to keep our products at the forefront of the industry. For Fiscal 2015 the Company employed five full time marketing people whereas for most of Fiscal 2014 the Company employed four people in this capacity. Travel costs have risen with the added marketing efforts as the Company's sales people are constantly travelling around the United States.

Share based expenses increased due to the granting of share purchase options during Fiscal 2015. Share based expenses for Fiscal 2015 were $672,533 as compared to $417,401 during Fiscal 2014.

Accounting, audit and legal fees are a key cost component in the access to capital resources and administration functions of a publicly listed industrial company. Costs for these professional services were $239,581 for Fiscal 2015 (Fiscal 2014 - $225,481).

The Company's products are used for the safe management of hazardous materials and require product liability insurance. Premiums are established by the number units of our products being used in the transport industry. As the Company's business grows so will the insurance costs. Total insurance costs for product liability, general commercial and health insurance for Fiscal 2015 were $731,835 (Fiscal 2014 - $626,704).

During Fiscal 2015 the Company wrote-off $298,484 of intangible asset costs that were deemed not recoverable from future operations. As well the Company undertook a tax review in order to comply with US tax law. For Fiscal 2015 the Company has recorded a tax liability of $1,191,020 which is net of taxes paid to the Canadian government. The Company is currently working on several issues which may result in the recovery of any assessed tax liability. The timing of these possible recoveries is not known at this time.

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

For Fiscal 2014, the Company reported net income of $4,025,781 ($0.09 per share) against revenue of $23,816,809 compared to a net income of $2,456,636 ($0.06 per share) against revenue of $13,131,387 for the year ended December 31, 2013. The Company's gross profit percentage has increased to 46% as a result of greater sales of stainless steel EPRV's in Fiscal 2014. Financial results are in line with business development budgets established by management.

Net income and comprehensive income for Fiscal 2014 was $4,025,781 after deducting non-cash working capital items. In accordance with IFRS, reported income includes items not involving cash. These include amortization of $161,408, share based payments (Black-Scholes) of $417,401 and deferred income tax of $832,171.

Factors in the reported income for Fiscal 2014 include expenses of $128,806 (Fiscal 2013-$157,397) related to the lease costs of production and headquarter facilities in Downers Grove, Illinois and Bonham, Texas; and on-going industrial product design and development costs of $440,600 (fiscal 2013-253,308). The Company started the current fiscal year with two engineers in this division but added two more engineers in Fiscal 2014. This has added to our design and development costs.

Other key costs include production infrastructure; human resource education; and marketing related expenses for products that have not yet seen sales results. For Fiscal 2014 salaries and benefits stayed constant at $245,430 (Fiscal 2013 - $245,409). The Company employs five administrative people in this area as compared to four for the comparative period. Executive management contract fees have stayed constant between Fiscal 2013 and Fiscal 2014 at $540,000 per year. In addition, the Company paid a bonus to three senior operating officers totaling $694,767 for Fiscal 2014 and $269,434 for Fiscal 2013. This bonus was pursuant to each officers' management contract. The Company's consulting fees have risen to $460,680 for Fiscal 2014 (Fiscal 2013 - $339,552). During Fiscal 2014 the Company retained one investor relations party, one administrative support person and one web-site/communications consultant. In addition this account includes transfer agent and filing fees which rose due to our filings with the Securities and Exchange Commission and due to the listing of the Company's common shares on the TSX in Canada and on the NYSE MKT.

Business growth expenses included marketing costs of $571,990 (Fiscal 2013 - $371,687) and related travel costs of $290,400 for Fiscal 2014 (Fiscal 2013 - $223,019). The Company's marketing efforts have increased substantially as reflected in our increased sales. For Fiscal 2014 the Company employed five full time marketing people whereas for most of Fiscal 2013 the Company employed three people in this capacity. Travel costs have risen with the added marketing efforts as the Company's sales people are constantly travelling around the United States.

Share based expenses declined due to the grant of fewer share purchase options during Fiscal 2014. Share based expenses for Fiscal 2014 were $417,401 as compared to $743,756 during Fiscal 2013.

Accounting, audit and legal fees are a key cost component in the access to capital resources and administration functions of a publicly listed industrial company. Costs for these professional services were $225,481 for Fiscal 2014 (Fiscal 2013 - $167,929).

The Company's products are used for the safe management of hazardous materials and require product liability insurance. Premiums are established by the number units of our products being used in the transport industry. As the Company's business grows so will the insurance costs. Total insurance costs for product liability, general commercial and health insurance for Fiscal 2014 were $626,704 (Fiscal 2013 - $372,402).

Year Ended December 31, 2013 Compared to Four Months Ended December 31, 2012

For Fiscal 2013, the Company reported net income of $2,456,636 ($0.06 per share) against revenue of $13,131,387 compared to a net income of $10,988 (Nil per share) against revenue of $2,830,778 for the four months ended December 31, 2012. The Company's gross profit percentage has increased to 40.4% as a result of greater sales of stainless steel EPRV's in the latter part of Fiscal 2013. Financial results are in line with business development budgets established by management.

Positive cash flow from operations for Fiscal 2013 was $2,456,636 before deduction of non-cash working capital items. In accordance with IFRS, reported income includes items not involving cash. These include amortization of $71,731 and share based payments (Black-Scholes) of $743,756 which were offset in part by deferred income tax recovery of $832,171.

Factors in the reported income for Fiscal 2013 include expenses of $157,397 (Transition Period - $49,868) related to the lease costs of production and headquarter facilities in Lisle, Illinois and Bonham, Texas; and on-going industrial product design and development costs of $253,308 (Transition Period - $36,802). The Company started the current fiscal year with only one engineer in this division but added another engineer in June of 2013. This has added to our design and development costs.

Other key costs include production infrastructure; human resource education; and marketing related expenses for products that have not yet seen sales results. As our business is expanding so have our administrative salaries and benefits. For Fiscal 2013 salaries and benefits rose to $245,409 (Transition Period - $58,876). The Company employs four administrative people in this area as compared to two for the comparative period. Executive management contract fees have risen from $146,727 in the Transition Period to $809,392 in Fiscal 2013. This rise is due to previously negotiated management contracts for the three senior operating officers of the Company. Fees for the Transition Period were $12,500 per month for each of the three senior operating officers. For Fiscal 2013 the fees were $12,500 for the first three months of the reporting period and $15,000 for the next nine months. In addition the Company paid a bonus to three senior operating officers totaling $269,434. This bonus was pursuant to each officers' management contract. The Company's consulting fees have risen to $339,552 for Fiscal 2013 (Transition Period - $74,083). During Fiscal 2013 the Company had retained two investor relations parties, one administrative support person and one web-site/communications consultant. In addition this account includes transfer agent fees as well as a one-time payment to a recruitment specialist.

Business growth expenses included marketing costs of $371,681 (Transition Period - $114,845) and related travel costs of $223,019 for Fiscal 2013 (Transition Period - $41,006). The Company's marketing efforts have increased substantially as reflected in our increased sales. For Fiscal 2013 the Company employed three full time marketing people whereas for most of Transition Period we employed only one person in this capacity. Travel costs have risen with our added marketing efforts as our sales people are constantly travelling around the United States.

Share based payments rose dramatically due to the granting of share purchase options during Fiscal 2013 to $743,756 as compared to $167,656 for the Transition Period when the charge was only for the vesting of consultants' options.

Accounting, audit and legal fees are a key cost component in the access to capital resources and administration functions of a publicly listed industrial company. Costs for these professional services were $167,929 for Fiscal 2013 (Transition Period - $66,414).

The Company's products are used for the safe management of hazardous materials and require product liability insurance. Premiums are established by the number units of our products being used in the transport industry. As our business grows so will our insurance costs. Total insurance costs for product liability, general commercial and health insurance for Fiscal 2013 were $372,402 (Transition Period - $81,724).

B. ***Liquidity and Capital Resources***

The Company's primary source of revenue is from new rail tank car builders and retrofit/repair customers. The Company is confident that the demand for our current EPRV products and new KKM technology will continue to improve in future periods. Indicators in the rail industry suggest that the demand for new tank car builds will remain constant during 2016. As such management expects that the demand on our liquidity and capital resources will remain constant in the short term. The Company is very fortunate to have negotiated very favorable payment terms with its largest customers and this will ease some of the added burden on our liquidity and capital resources.

As at the end of Fiscal 2015 there were no material commitments for capital expenditures. During 2014 the Company completed the construction of a new 44,000 square foot building for a cost of $2,700,000.

The Company plans to generate the necessary capital resources to finance operations by way of the sales of its products, and the exercise   incentive stock options. During 2015 the Company raised $373,723 from the exercise of 825,000 share purchase options. If the Company is unsuccessful in generating adequate capital resources from one or more of the anticipated sources and is unable to replace any shortfall with capital resources from another source, the Company may not be able to meet its future financial obligations and its operations may be adversely affected.

Management takes all necessary precautions to minimize risks however additional risks could affect the future performance of the Company. They include that the Company's products are new entries to the railroad industry and involve detailed proprietary and engineering knowledge and specific customer adoption criteria, hence factors that could cause actual financial results to be materially different include that we may be unsuccessful in raising any additional capital needs that may arise; we may not have sufficient capital to develop, produce and deliver new orders; product development may face unexpected delays; orders that are placed may be cancelled; product may not perform as well as expected; markets may not develop as quickly as anticipated or at all; or that the construction or other plans for plants run into permit, labor or other problems. See “Risk Factors”.

In the past, the Company has raised funds through private placement financings and through the exercise of options and warrants. Currently, the Company relies primarily on revenue generated through operations. Although the Company has been successful in raising funds and funding itself in the past, there is no guarantee that the Company will be able to do so in the future.

December 31, 2015 Compared to December 31, 2014

At December 31, 2015 the Company had cash and cash equivalents in the amount of $3,175,292; accounts receivable of $1,706,488; prepaid expenses of $1,103,498; Income tax receivable of $683,163 and inventory of $5,981,919 compared to cash and cash equivalents in the amount of $9,895,463; accounts receivable of $2,850,180; prepaid expenses of $58,432; income tax receivable of $Nil and inventory of $4,161,506 at December 31, 2014.

The working capital position of the Company at December 31, 2015 was $10,099,390 which includes $2,795 due to related parties compared to a working capital position of $12,868,325 which includes $709,954 due to related parties at December 31, 2014.

Total assets declined to $16,157,689 at December 31, 2015 compared to $20,696,182 at December 31, 2014. At December 31, 2015, the Company had no interest bearing long-term liabilities or debt.

December 31, 2014 Compared to December 31, 2013

At December 31, 2014 the Company had cash and cash equivalents in the amount of $9,895,463; accounts receivable of $2,850,180; prepaid expenses of $58,432 and inventory of $4,161,506 compared to cash and cash equivalents in the amount of $4,462,531; accounts receivable of $1,259,340; prepaid expenses of $71,696 and inventory of $2,139,750 at December 31, 2013.

The working capital position of the Company at December 31, 2014 was $12,868,325 which includes $709,954 due to related parties compared to a working capital position of $7,447,170 which includes $284,847 due to related parties at December 31, 2013.

Total assets grew to $20,696,182 at December 31, 2014 up from $9,283,388 at December 31, 2013. At December 31, 2014, the Company had no interest bearing long-term liabilities or debt.

December 31, 2013 Compared to December 31, 2012

At December 31, 2013 the Company had cash and cash equivalents in the amount of $4,462,531; accounts receivable of $1,259,340; prepaid expenses of $71,696 and inventory of $2,139,750 compared to cash and cash equivalents in the amount of $1,421,053; accounts receivable of $1,055,778; prepaid expenses of $88,506 and inventory of $1,188,467 at December 31, 2012.

The working capital position of the Company at December 31, 2013 was $7,447,170 which includes $15,413 due to related parties compared to a working capital position of $3,470,762 which includes $12,247 due to related parties at December 31, 2012.

Total assets grew to $9,283,388 at December 31, 2013 up from $4,319,482 at December 31, 2012. At December 31, 2013 the Company had no interest bearing long-term liabilities or debt.

C. *Research and Development, Patents and Licenses, etc.*

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 non-hazardous and HAZMAT commodities via rail and road. Kelso Innovative works closely with 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. See "Business Overview", "Intangible Properties", "Economic Dependence" and "Risk Factors" above for a discussion of the Company's patents and licenses.

The Company has spent the following amounts on research in recent years: $783,680 during Fiscal 2015, $440,600 during Fiscal 2014 and $253,308 during Fiscal 2013.

D. *Trend Information*

In 2015 the Company managed its business development strategies in the worst rail tank car market since 2008. HAZMAT businesses cut back on production which led to lower demand for rail tank cars. There are many reasons for this trend which include political climate, regulatory uncertainty, low commodity prices and diminishing economic activity. This is expected to continue through early 2016.

Affecting our future business outlook is the impact of mandatory new regulations for HAZMAT tank cars. On May 1, 2015 Transport Canada (TC) and the Department of Transportation (DOT) of the United States put forth their much anticipated design specifications for the new DOT- 117 rail tank cars to be used in the transportation of flammable liquids by rail. The final rules were developed by the U.S. Pipeline and Hazardous Material Safety Administration (PHMSA) and the Federal Railroad Administration (FRA).

The new rules establish a minimum threshold for existing DOT-111 and DOT-117 rail cars transporting dangerous goods including petroleum crude oil and ethanol and other flammable commodities in North America. The primary theme of the new regulations is improving the survivability of a tank car in an accident and the adoption and use of the best available safety technologies (BAST) for the rail transport of hazardous materials.

Originally scheduled for January 2015 the delayed PHMSA regulations have proven problematic to the owners of rail tank cars. After much analysis the retrofit option for most owners is cost prohibitive and makes no financial sense. It appears that there may be a new build boom forming on the horizon as the majority of existing DOT-111 tank cars will most likely be re-purposed or scrapped in favor of new tank cars. Compliance with the new DOT-117 regulations must be completed in early 2018, a situation that should be good for the long-term benefit of the Company.

E. *Off-Balance Sheet Arrangements*

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resource that is material to investors.

F. *Tabular Disclosure of Contractual Obligations*

The Company does not have any contractual obligations as of December 31, 2015 relating to long-term debt obligations, capital (finance) lease obligations, operating lease obligations, purchase obligations or other long-term liabilities reflected on our latest balance sheet as at December 31, 2015.

Item 6. Directors, Senior Management and Employees

*A. **Directors and Senior Management***

The following information sets forth the name, office held, age, and functions and areas of experience in the Company of each of our directors, senior management, and certain significant employees:

Name	Position(s) Held with Company	Principal Business Activities and Other Principal Directorships
James R. Bond	Director, President and CEO	President of Bondwest Enterprises Inc. a private company specializing in public company management, corporate finance, entrepreneurial management and business development since 1988.
Richard Lee	CFO	CFO of the Company since April 8, 2010 and self-employed businessman.
William Troy	Director and Audit Committee Member	Businessman
Neil Gambow	Director, former COO, Managing Director Corporate Development[(1)], CEO of Kelso USA and CEO of Kelso Innovative	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.
Peter Hughes	Director and Audit Committee Member	Self-employed businessman. Director of Broome Capital Inc. (BCP.HNEX), Gourmet Ocean Products Inc. (GOP.V) and Naturally Splendid Enterprises Ltd. (NSP – TSXV).
Anthony Andrukaitis	Director, Executive Vice President Business Development, COO[(1)]	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.
Phil Dyer	Director and Audit Committee Member	Businessman. President of LegacyTexas Bank Plano, Texas from November 1996 to January of 2015. Former mayor of Plano, TX, having served from 2009 to 2013.
John R. O’Neill	Director	John R. O'Neill is the President and CEO of the Firefighters Education and Training Foundation (“the Safety Train”) which he founded in 1994. Prior to his involvement with the Safety Train, he was a private building contractor.

(1) On March 1, 2015 Mr. Gambow resigned as Chief Operating Officer of the Company and was appointed Managing Director Corporate Development. Mr. Andrukaitis was appointed Chief Operating Officer of the Company on March 1, 2016.

James R. Bond (62 years) – President, CEO and Director

Mr. Bond has been director President and CEO of the Company since April 7, 2010**.** Mr. Bond is the President of Bondwest Enterprises Inc., a Canadian company established in 1988 that specializes in corporate architecture, financial networking, entrepreneurial management, strategic business development and distress turnarounds. Over the past 36 years he has served in advisory, consulting, executive management, director and corporate officer roles in numerous private and public companies conducting business in the technology, manufacturing and processing industries.

Richard Lee (60 years) – CFO

Mr. Lee has been our CFO since April 8, 2010. Mr. Lee is a graduate of the University of British Columbia with a Bachelor’s degree in Commerce. In addition he is a Chartered Professional Accountant, Certified Management Accountant having obtained his designation in 1991. Mr. Lee spent more than 27 years working for public accounting firms or for companies that trade on recognized stock exchanges. He has gained a wealth of experience in corporate finance, acquisitions and accounting while working with and for listed public companies trading in Canada as well as registered with the SEC in the United States.

William Troy (74 years) – Director

Mr. Troy has been a director of the Company since November 21, 2005 and is a member of our Audit Committee. My. Troy has 36 years of business experience including operating and managing several multi-modal transportation companies in the Pacific Northwest and Alaska. Most recently he was owner and CEO of a major northwest regional trucking company that provided agricultural and liquid trucking contract services for several Fortune 500 companies. Mr. Troy has a B.A. and an M.B.A. from the University of Oregon.

Neil Gambow (70 years) – Managing Director Corporate Development, former COO

Mr. Gambow is currently Managing Director of Corporate Development. Mr. Gambow held the position of COO of the Company until March 1, 2016. Mr. Gambow has been a director of the Company since December 28, 2009. Mr. Gambow has served as CEO of Kelso Innovative (engineering industrial designs and distribution plans for patented Kelso Klincher™) since June 21, 2012 and as President and CEO of Kelso USA (sales and marketing of pressure relief valves and manways) since November 2007. Mr. Gambow is the former President of Midland Manufacturing, a subsidiary of the Dover Corporation, a US Fortune 500 company. Midland produces valves and valve-related products for the North American rail tank car market. Mr. Gambow is based in Chicago, Illinois and is responsible for the daily operations of the Company's plant in Bonham, TX as well as the business development of the technologies of the Company.

Peter Hughes (54 years) - Director

Mr. Hughes has been a director of the Company since October 4, 2010 and is a member of our Audit Committee. Mr. Hughes has 30 years' business experience including senior-level executive and director positions in both private and public companies specializing in pharmaceuticals, alternative energy and mining. Mr. Hughes has built industrial and resource companies from the ground up and has obtained regulatory and exchange approval for numerous reporting issuers. His experience includes corporate structuring, technology assessments, proprietary protection, public and private financings, negotiating property agreements, and public company management. He has also worked with National Research Council of Canada providing alternative energy companies with market intelligence and strategic planning. Mr. Hughes has a Bachelor of Science from UBC and completed the Canadian Securities Course and Directors & Officers Program. Mr. Hughes currently serves as President, CEO and a director of Broome Capital Inc., a capital pool company listed on the NEX CEO and a director of Gourmet Ocean Products Inc. a company listed on the TSXV and as a director of Naturally Splendid Enterprises Ltd., a company listed on the TSXV.

Anthony Andrukaitis (61 years) – Director, Executive Vice-President Business Development and COO

Mr. Andrukaitis has been a director of the Company since August 24, 2011 and was appointed COO on March 1, 2016. Mr. Andrukaitis was a member of the Audit Committee until January 2, 2015 when he was appointed Executive Vice President Business Development. Mr. Andrukaitis has served as Chief Operations Officer of Trinity Industries, Inc. (Holding company providing products and services to industrial, energy, transportation, and construction sectors) July 2004 – March 2009. Mr. Andrukaitis has over 26 years of senior corporate management experience in finance, accounting, strategic planning, business development and turn-around activities. He was the Chief Operations Officer of Trinity Rail and former President of Trinity Tank Car, Inc., both subsidiaries of Trinity Industries of Dallas, Texas. Prior to that, he was the President and CEO of GATX Terminals Corporation of Chicago, IL. Mr. Andrukaitis is a CPA and holds a Bachelor of Science degree in Accounting from the University of Illinois and Master of Business Administration degree from DePaul University.

Phil Dyer (64 years) – Director

Mr. Dyer has been a director of the Company since January 2, 2015 and is a member of the Audit Committee. Mr. Dyer held the position of President of the Legacy Texas Bank, Plano Texas, from November 1996 to January of 2015. Mr. Dyer is also the former mayor of Plano, Texas having served from 2009 to 2013. Mr. Dyer holds a Bachelor's degree from the University of Texas and an MBA from East Texas State University.

John R. O'Neill (67 years) – Director

Mr. O'Neill has be a Director of the Company since June 4, 2015. Mr. O'Neill is the President and CEO of the Firefighters Education and Training Foundation ("the Safety Train") which he founded in 1994.

Family Relationships

There are no family relationships between any of our directors and senior management listed above.

B. ***Compensation***

During Fiscal 2015, the Company's directors and members of its administrative, supervisory or management bodies received compensation for services, as follows:

Name and Principal Position	Year Ended	Salary ($)	Option–based Awards ($)	All other compensation ($)	Total compensation ($)
James R. Bond *Director, President and CEO*	December 31, 2015	$180,000	N/A	$700	$180,700
Richard Lee *CFO*	December 31, 2015	$180,000	N/A	N/A	$180,000
Neil Gambow *Director, Managing Director of Business Development and former COO of the Company[(1)], CEO Kelso USA and CEO Kelso Innovative*	December 31, 2015	$180,000	N/A	$700	$180,700
William Troy *Director*	December 31, 2015	N/A	N/A	$8,000	$8,000
Peter Hughes *Director*	December 31, 2015	N/A	N/A	$14,000	$14,000
Anthony Andrukaitis *Director, Executive Vice President Business Development and COO[(1)]*	December 31, 2015	$180,000	N/A	$1,000	$181,000
Phil Dyer *Director*	December 31, 2015	N/A	N/A	$6,400	$6,400
John R. O'Neill *Director*	December 31, 2015	N/A	N/A	$3,700	$3,700

(1) On March 1, 2015 Mr. Gambow resigned as Chief Operating Officer of the Company and was appointed Managing Director Corporate Development. Mr. Andrukaitis was appointed Chief Operating Officer of the Company on March 1, 2016.

Employment Agreements

The Company entered into an employment agreement with James R. Bond effective January 1, 2014 with regards to his employment as the President and Chief Executive Officer of the Company. The agreement is for a 36-month term. The agreement provides for a severance clause of twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Bond a base salary of $15,000 per month for the term of the agreement. Mr. Bond is eligible to receive a bonus based on the performance of the Company.

The Company entered into an employment agreement with Richard Lee effective January 1, 2014 with regards to his employment as the Chief Financial Officer of the Company. The agreement is for a 36-month term. The agreement provides for a severance clause of twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Lee a base salary of $15,000 for the term of the agreement. Mr. Lee is eligible to receive a bonus based upon the performance of the Company.

The Company entered into an employment agreement with Neil Gambow effective January 1, 2014 with regards to his employment as the President and Chief Executive Officer of Kelso USA . The agreement is for a 36-month term. The agreement provides for a severance clause of twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Gambow a base salary of $15,000 per month for the term of the agreement. Mr. Gambow is eligible to receive a bonus based upon the performance of the Company.

Stock Option Plan

Pursuant to the policies of the TSX, the Company is required to adopt stock option plan prior to granting incentive stock options and, accordingly, the Company has adopted a stock option plan (the "Option Plan"). The purpose of the Option Plan is to ensure that the Company is able to provide an incentive program for directors, officers, employees and persons providing services to the Company (the "Optionee") that provides enough flexibility in the structuring of incentive benefits to allow the Company to remain competitive in the recruitment and maintenance of key personnel.

The maximum aggregate number of common shares that may be reserved for issuance pursuant to the Option Plan shall be a rolling number of common shares equal to 10% of the total issued and outstanding common shares of the Company from time to time. Any common shares in respect of which previously granted options have been exercised shall not be deducted from the number of common shares reserved for issuance under the Option Plan and shall again be available for grant under the Option Plan. In addition, the aggregate number of common shares which may be reserved for issuance pursuant to the Option Plan or any other share compensation arrangement (pre-existing or otherwise) to any one participant under the Option Plan within a one-year period shall not exceed 5% of the common shares (on a non-diluted basis) outstanding at the time of the grant. The maximum number of common shares which may be issued to insiders within any one year period under the Option Plan or under any other share compensation arrangement taken together shall not exceed 10% of the common shares outstanding from time to time.

The exercise price of any option granted under the Option Plan is to be determined from time to time by the Board but in any event shall be no lower than the last closing price of the Company's shares before the grant of options. The Board, or a committee appointed for such purposes, also has the authority under the Option Plan to determine other terms and conditions relating to the grant of options, including any applicable vesting provisions. Options issued to any Optionee providing investor relations services to the Company must vest (and not otherwise be exercisable) in stages over a minimum of twelve months with no more than one quarter of the options vesting in any three month period, and will expire within a maximum of thirty days after the Optionee ceases to be employed by the Company.

The term of options granted under the Option Plan shall not exceed ten years from the date of grant, and all options granted under the Option Plan are not transferable other than by will or the laws of dissent and distribution. If an Optionee ceases to be an Oprionee for any reason whatsoever other than death or termination for cause, each option held by such Optionee will cease to be exercisable the earlier of 90 days following the termination date (being the date on which such Optionee ceases to be an Optionee) and the original expiry date of such option. If an Optionee dies, the legal representative of the Optionee may exercise the Optionee's options within one year after the date of the Optionee's death but only up to and including the original option expiry date.

If at any time the expiry of the term of an option should be determined to occur either during a period in which the trading of common shares by the Optionee is restricted under the insider trading policy or other policy of the Company or within ten business days following such a period, then the expiry date (and the option term) of such option shall be automatically extended to the tenth trading day following the date the relevant black-out period or other trading restriction imposed by the Company is lifted, terminated or removed.

The Directors and Senior Management are eligible to participate in the Option Plan. The Company does not provide any financial assistance to participants in order to facilitate the purchase of common shares under the Option Plan. The Board can amend the terms of the Option Plan, provided that, among other things, no such amendment may be made that would increase the maximum aggregate number of common shares available for issuance as options or that would affect the terms of any previously granted stock option unless the Company receives shareholder approval for such amendment in accordance with the policies of the TSX.

Option-Based Awards

The following table sets forth the share-based awards or option-based awards for each of directors and officers of the Company outstanding as at December 31, 2015:

	Option Based Awards			
Name	**Number of securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)[(1)]**
James R. Bond[(1)]	100,000 100,000	CAD$0.58 $1.45	July 22, 2016 March 31, 2017	CAD$0 $36,849
Richard Lee[(1)]	100,000 100,000	CAD$0.58 $1.45	July 22, 2016 March 31, 2017	CAD$0 $36,849
Neil Gambow[(1)]	100,000 200,000	CAD$0.58 $1.45	July 22, 2016 March 31, 2017	CAD$0 $36,849
William Troy[(1)]	100,000	$1.45	March 31, 2017	$36,849
Peter Hughes[(1)]	15,000 150,000	CAD$0.58 $1.45	July 22, 2016 March 31, 2017	$0 $55,274
Anthony Andrukaitis[(1)]	100,000 50,000 300,000	$0.58 $1.45 $5.90	August 24, 2016 March 31, 2017 January 2, 2016	$0 $18,424 $0
Phil Dyer[(1)]	200,000	$5.90	January 2, 2016	$0
John R. O'Neill[(1)]	200,000	$2.12	August 25, 2017	$0

(1) Value is calculated based on the difference between the market value of the securities underlying the options as at December 31, 2015 being CAD$1.50 and the exercise price of the option. The quoted share price is in CAD dollars and has been converted to US dollars using the Bank of Canada rate on December 31, 2015 of USD 1.3840 [CAD 0.7225].

Termination and Change of Control Benefits

Except as disclosed above with respect to James R. Bond, Richard Lee and Neil Gambow, we have no plans or arrangements in respect of remuneration received or that may be received by our directors and senior management in respect of compensating such person in the event of termination of employment (as a result of resignation, retirement, change of control, etc.) or a change in responsibilities.

Pension, Retirement or Similar Benefits

We have not set aside or accrued any amounts to provide pension, retirement or similar benefit for our directors or senior management during Fiscal 2015.

C. **Board Practices**

Term of Office

Each director of the Company holds office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the articles of the Company or the provisions of the BCBCA. Each member of our senior management is appointed to serve at the discretion of our Board, subject to the terms of the employment agreements described above.

Service Contracts

See "Employment Agreements" and "Termination and Change of Control Benefits" above for particulars of certain directors' service contracts with the Company and its subsidiaries, as applicable. Other than as disclosed herein, the Company does not have any service contracts with directors which provide for benefits upon termination of employment.

Committees

The Company currently has three standing committees, the audit committee, the corporate governance and nominating committee and the compensation committee.

Audit Committee

The current members of the audit committee are Phil Dyer (Chairman), William Troy and Peter Hughes. As defined in National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrator, Phil Dyer, William Troy and Peter Hughes are independent meaning that they have no direct or indirect material relationship with the Company that could, in the view of the Board, reasonably interfere with the exercise of their independent judgment. They are also financially literate, meaning that they have the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by our financial statements.

We have adopted a charter for our audit committee. The audit committee is responsible for review of both interim and annual financial statements for the Company. For the purposes of performing their duties, the members of the audit committee have the right at all times, to inspect all the books and financial records of the Company and any subsidiaries and to discuss with management and the external auditors of the Company any accounts, records and matters relating to the financial statements of the Company. The audit committee members meet periodically with management and annually with the external auditors. Our audit committee has the overall duties and responsibilities to:

- review the financial reporting process to ensure the accuracy of the financial statements of the Company;
- assist the Board to properly and fully discharge its responsibilities;
- strengthen the role of the Board by facilitating in depth discussions between directors, management and external auditors;
- evaluate the independent auditor's qualifications, performance and independence;
- facilitate the independence of the independent auditor;
- assess the processes relating to the determination and mitigation of risks and the maintenance of an effective control environment; and
- review the processes to monitor compliance with laws and regulations.

Compensation Committee

The principal purpose of the Compensation Committee is to implement and oversee compensation policies approved by the Board. The duties and responsibilities of the Compensation Committee include, without limitation, the following:

a) to recommend to the Board compensation policies and guidelines for the Company; and
b) to review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer and, in light of those goals and objectives, to recommend to the Board the annual salary, bonus and other benefits, direct and indirect, of the Chief Executive Officer and to approve compensation for all other designated officers of the Company, after considering the recommendations of the Chief Executive Officer, all within the human resources and compensation policies and guidelines approved by the Board.

The Company has adopted a formal written mandate for the Compensation Committee. The mandate provides that the committee shall consist of at least three members of the Board, all of whom shall be "independent" in accordance with applicable legal requirements, including currently the requirements published by the Canadian

Securities Administrators under NP 58-201 "Corporate Governance Guidelines" and the applicable NYSE MKT rules. The current members of the Compensation Committee are Messrs. Hughes, Troy and O'Neill.

All members of the Compensation Committee have direct experience which is relevant to their responsibilities as Compensation Committee members. All of the members of the Compensation Committee have or have had senior level executive and director positions in both private and public companies, and therefore have a good understanding of how compensation works and how to motivate staff. All of the members have good financial understanding which allows them to assess the costs versus benefits of compensation plans. The members combined experience in the resource sector provides them with the understandings of the Company's success factors and risks which is very important when determining the metrics for measuring success.

The Board appoints the members of the Compensation Committee for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the Company's Shareholders. The Board may at any time remove or replace any member of the Compensation Committee and may fill any vacancy in the committee.

The Compensation Committee meets regularly each year on such dates and at such locations as the Chair of the Compensation Committee determines. The Compensation Committee has access to such officers and employees of the Company and to such information respecting the Company and may engage independent counsel or advisors at the expense of the Company, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

Corporate Governance and Nominating Committee

The purpose of the Corporate Governance and Nominating Committee is to provide a focus on corporate governance that will enhance corporate performance, and to ensure on behalf of the Board and Shareholders that the Corporation's corporate governance system is effective in the discharge of its obligations to the Corporation's shareholders.

The Corporate Governance and Nominating Committee also has the responsibility of proposing nominees for director. The Committee considers the competencies and skills that the Board as a whole should possess, the competencies and skills of existing Board members and the competencies and skills of proposed new Board members. The Committee members utilize their extensive knowledge of the industry and personal contacts to identify potential nominees that possess the desired skills and competencies.

The duties and responsibilities of the Corporate Governance and Nominating Committee include, without limitation, the following:

a) Develop and monitor the Company's overall approach to corporate governance issues and, subject to approval by the Board, implement and administer this process.
b) Advise the Board or any of the committees of the Board of any corporate governance issues which the Committee determines ought to be considered by the Board or any such committees.
c) Review with the Board, on a regular basis, but not less than annually, the terms of reference for the Board, each committee of the Board, the Chairman and the Chief Executive Officer.
d) Review with the Board, on a regular basis, the methods and processes by which the Board fulfils its duties and responsibilities, including without limitation:
    i. the size of the Board;
    ii. the number and content of meetings;
    iii. the annual schedule of issues to be presented to the Board at its meetings or those of its committees;
    iv. material which is to be provided to the directors generally and with respect to the meetings of the Board or its committees;
    v. resources available to the directors; and
    vi. the communication process between the Board and management.
e) Review and, as necessary, authorize a committee or an individual director to engage separate independent counsel and/or advisors at the expense of the Company in appropriate circumstances.
f) Make recommendation to the Board regarding changes or revisions to the Board's Corporate Governance Guidelines;

g) Evaluate and make recommendations to the Board concerning the appointment of directors to the committees and the selection of Board committee chairs;
h) Annually evaluate and report to the Board on the performance and effectiveness of the Board and its committees;
i) Annually, in conjunction with the Chief Executive Officer, evaluate the performance of the Company's management (other than the Chief Executive Officer). Conduct an annual review of succession planning and report its findings and recommendations to the Board;
j) Evaluate and lead the Board's annual review of the Chief Executive Officer's performance; and
k) Annually review and evaluate its performance.

The Corporation has adopted a formal written mandate for the Corporate Governance and Nominating Committee. The mandate provides that the Corporate Governance and Nominating Committee shall consist of at least three directors, all of whom will be "independent directors" in accordance with applicable legal requirements, including currently the requirements published by the Canadian Securities Administrators under NP 58-201 "Corporate Governance Guidelines" and the applicable NYSE MKT rules. Each member will have skills and/or experience which are relevant to the mandate of the Committee. The current members of the Corporate Governance and Nominating Committee are Messrs. Hughes, Dyer and O'Neill.

The Board appoints the members of the Corporate Governance and Nominating Committee for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the Shareholders of the Corporation. The Board may at any time remove or replace any member of the Corporate Governance and Nominating Committee and may fill any vacancy in the committee.

The Corporate Governance and Nominating Committee meets regularly each year on such dates and at such locations as the Chair of the committee determines. The Corporate Governance and Nominating Committee has access to such officers and employees of the Corporation and to such information respecting the Corporation and may engage independent counsel and advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

D. Employees

As at December 31, 2015, the Company had 42 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 Surrey, British Columbia, . There has been no significant change in the number of employees since December 31, 2015. As at the date of this filing, the Company's employees are not unionized and all employees are full-time. As at December 31, 2014, the Company had 42 employees, including employees of its subsidiaries).

E. Share Ownership

As of December 31, 2015, our directors and senior management beneficially owned the following common shares and stock options of the Company:

Name and Office Held	Number of Common Shares Owned and Percent of Total Outstanding Common Shares		Options Owned
	# of Shares	% of Class[(1)]	
James R. Bond *Director, President and CEO*	1,267,500 [(2)]	2.75%	200,000[(2)]
William Troy *Director*	1,041,021[(3)]	2.26%	100,000[(3)]

Name and Office Held	Number of Common Shares Owned and Percent of Total Outstanding Common Shares		Options Owned
	# of Shares	% of Class[(1)]	
Neil Gambow *Director, Managing Director Corporate Development and former COO[(10)]* *CEO Kelso USA and CEO Kelso Innovative*	447,169[(4)]	0.97%	200,000[(4)]
Peter Hughes *Director*	1,000[(5)]	0.00%	165,000[(5)]
Anthony Andrukaitis *Director, Executive Vice President Business Development and COO[(10)]*	145,000[(6)]	0.314%	450,000[(6)]
Phil Dyer[(7)] *Director*	10,000[(7)]	0.021%	200,000[(7)]
John R. O'Neill *Director*	0[(8)]	0%	200,000[(8)]
Richard Lee *CFO*	14,500[(9)]	0.031%	200,000[(9)]

(1) Based on 46,071,752 common shares issued and outstanding as at December 31, 2015.
(2) Mr. Bond holds 487,500 common shares directly; 625,000 common shares indirectly through Bondwest Enterprises Inc., a company owned and controlled by Mr. Bond; and 155,000 common shares jointly with Serena Sardar, Mr. Bond's spouse; and he also holds 200,000 stock options exercisable into Common Shares that are not included in the total.
(3) Mr. Troy also holds 100,000 stock options exercisable into Common Shares that are not included in the total.
(4) Mr. Gambow also holds 200,000 stock options exercisable into Common Shares that are not included in the total.
(5) Mr. Hughes holds 165,000 stock options exercisable into Common Shares that are not included in the total.
(6) Mr. Andrukaitis holds 450,000 stock options exercisable into Common Shares that are not included in the total.
(7) Mr. Dyer holds 200,000 stock options exercisable into Common Shares that are not included in the total.
(8) Mr. O'Neill holds 200,000 stock options exercisable into Common Shares that are not included in the total.
(9) Mr. Lee holds 200,000 stock options exercisable into Common Shares that are not included in the total.
(10) On March 1, 2015 Mr. Gambow resigned as Chief Operating Officer of the Company and was appointed Managing Director Corporate Development. Mr. Andrukaitis was appointed Chief Operating Officer of the Company on March 1, 2016.

The voting rights attached to the common shares owned by our directors and senior management do not differ from those voting rights attached to shares owned by people who are not directors or senior management of the Company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

To the best of our knowledge, there are no persons or company who beneficially own, directly or indirectly, or exercise control or direction over, securities carrying more than 5% of the voting rights attached to any class of voting securities of the Company.

The voting rights of our major shareholders do not differ from the voting rights of holders of our common shares who are not our major shareholders.

As at December 31, 2015, the registrar and transfer agent for the Company reported that there were 46,071,752 common shares of the Company issued and outstanding. Of these, 42,122,109 were registered to Canadian residents (14 recorded shareholders), 3,938,215 were registered to residents of the United States (19 recorded shareholders) and 11,428 were registered to residents of other foreign countries (1 recorded shareholders).

To the best of our knowledge, the Company is not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly, except as disclosed in the above table regarding our major shareholders.

There are no arrangements known to us, the operation of which may at a subsequent date result in a change in control of the Company.

B. ***Related Party Transactions***

For Fiscal 2015, management fees for our Company were $727,217 (Fiscal 2014 $1,243,763; Fiscal 2013 $809,392). As at December 31, 2015, amounts due to related parties, which are unsecured and have no interest is $2,795 (2014 $709,954) consisting of $Nil (2014 $694,767) for management bonus payment due not later than five months after the year end and $2,795 (2014 $15,187) for reimbursement of expenses to a director of the Company. These expenses are due on demand.

Share based payments (calculated using the Black-Scholes option pricing model) were $553,011 for Fiscal 2015 ($208,023 for Fiscal 2014; Fiscal 2013 $340,000) related party transactions during Fiscal 2015, Fiscal 2014 and Fiscal 2013 were in the normal course of operations and were measured at their fair value.

Other than as disclosed in this annual report and the financial statements attached hereto and other than in the ordinary course of business, since the beginning of our preceding three financial years, there have been no transactions or loans between the Company and:

(a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Company;

(b) associates, meaning unconsolidated enterprises in which we have a significant influence or which have significant influence over the Company;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of any such individual's family;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and senior management of the Company and close members of such individuals' families; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence, including enterprises owned by directors or major shareholders of the Company and enterprises that have a member of key management in common with the Company.

Compensation

For information regarding compensation for our directors and senior management, see Item 6.B. Compensation.

Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. ***Financial Statements and Other Financial Information***

Our financial statements are stated in United States dollars and are prepared in accordance with IFRS, as issued by the IASB, the application of which, in our case, conforms in all material respects for the periods presented with the United States generally accepted accounting principles.

The following financial statements and notes thereto are filed with and incorporated herein as part of this annual report:

(a) audited consolidated financial statements for the year ended December 31, 2015 including: independent auditors' report by Smythe CPA, Chartered Professional Accountants, consolidated statements of financial position as at December 31, 2015 and 2014, consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years December 31, 2015 and 2014 and 2013.

These financial statements can be found under “Item 17. Financial Statements” below.

Export Sales

All sales are domestic to the US.

Legal Proceedings

There have not been any legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings, those involving any third party, and governmental proceedings pending or known to be contemplated, which may have, or have had in the recent past, significant effect the Company’s financial position or profitability.

Also, there have been no material proceedings in which any director, any member of senior management, or any of our affiliates is either a party adverse to the Company or its subsidiaries or has a material interest adverse to the Company or its subsidiaries.

Policy on Dividend Distributions

On April 2, 2015, the Company announced the declaration of an annual cash dividend of $0.03 per share payable in cash on April 30, 2015 to shareholders of record at the close of business on April 15, 2015 (the “**2015 Annual Dividend**”).

The Company’s Board of Directors may give consideration on an annual basis to the payment of future dividends. The amount of any future annual dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Board is, however, under no obligation to declare dividends and the declaration of dividends is wholly within their discretion. Further, the Company’s Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared.

Significant Changes

We are not aware of any significant change that has occurred since December 31, 2015 that has not been disclosed in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Price History

Full Financial Years (five most recent full financial years)

The annual high and low market prices of our common shares for the five most recent full financial years on the TSX and NYSE MKT were as follows:

Year Ended	TSX[(1)] (Canadian dollars, $)		NYSE MKT[(2)] (U.S. dollars, $)	
	High	Low	High	Low
December 31, 2015	5.70	1.30	5.11	.79

Year Ended	TSX[1] (Canadian dollars, $)		NYSE MKT[2] (U.S. dollars, $)	
December 31, 2014	7.32	3.11	6.73	2.77
December 31, 2013	3.46	0.58	3.33	0.5875
December 31, 2012[3]	0.68	0.51	0.66	0.528
August 31, 2012	0.72	0.485	0.72	0.488
August 31, 2011	0.78	0.155	0.7386	0.0097

(1) The common shares of the Company were listed for trading on the TSX on May 22, 2014 prior to which they traded on the TSXV.
(2) The common shares of the Company were listed for trading on the NYSE MKT on October 14, 2014 prior to which they traded on the OTCQX International under the symbol "KEOSF".
(3) Effective December 31, 2012, the Company changed the fiscal year end from August 31 to December 31. Information in this row is for the four month period from September 1, 2012 to December 31, 2012.

Full Financial Quarters (two most recent full financial years)

The high and low market prices of our common shares for each full financial quarter for the two most recent full financial years on the TSX and NYSE MKT were as follows:

Quarter Ended	TSX[1] (Canadian dollars, $)		NYSE MKT[2] (U.S. dollars, $)	
	High	Low	High	Low
December 31, 2015	1.56	1.30	1.62	0.79
September 30, 2015	2.66	2.55	2.63	1.83
June 30, 2015	4.38	4.26	4.16	3.08
March 31, 2015	5.70	5.51	5.11	3.99
December 31, 2014	6.98	5.61	6.24	5.03
September 30, 2014	7.15	5.22	6.54	4.81
June 30, 2014	7.32	4.80	6.73	4.13
March 31, 2014	4.68	3.01	4.20	2.77

(1) The common shares of the Company were listed for trading on the TSX on May 22, 2014 prior to which they traded on the TSXV.
(2) The common shares of the Company were listed for trading on the NYSE MKT on October 14, 2014 prior to which they traded on the OTCQX International under the symbol "KEOSF".

Most Recent 6 Months

The high and low market prices of our common shares for each month for the most recent six months on the TSX and NYSE MKT were as follows:

Month Ended	TSX[1] (Canadian dollars, $)		NYSE MKT [2] (U.S. dollars, $)	
	High	Low	High	Low
February 29, 2016	1.34	1.07	.97	.79
January 31, 2016	1.52	1.21	1.15	.82
December 31, 2015	1.52	1.41	1.25	0.76
November 30, 2015	1.41	1.29	1.49	0.748
October 31, 2015	1.74	1.60	1.70	0.886
September 30, 2015	2.15	2.12	1.85	1.57

(1) The common shares of the Company were listed for trading on the TSX on May 22, 2014 prior to which they traded on the TSXV.
(2) The common shares of the Company were listed for trading on the NYSE MKT on October 14, 2014 prior to which they traded on the OTCQX International under the symbol "KEOSF").

Transfers of Common Shares

Our common shares are in registered form and the transfer of our common shares is managed by our transfer agent, Computershare Investor Services Inc. with transfer facilities in Vancouver and Toronto.

Computershare Trust Company, Denver, Colorado, serves as co-transfer agent and co-registrar for the Company's shares in the US.

Requests for information should be directed to Computershare Investor Services Inc., 100 University Avenue, 8th Floor, Toronto, Ontario Canada M5J 2Y1. Telephone 1 800 564 6253 (toll free in Canada and the United States) between the hours of 8:30 a.m. and 8:00 p.m. Eastern Time or 514 982 7555 (international direct dial).

B. ***Plan of Distribution***

Not applicable.

C. ***Markets***

The Common Shares are publicly traded on the TSX under the symbol "KLS", and on the NYSE MKT under the symbol "KIQ".

D. ***Selling Shareholders***

Not applicable.

E. ***Dilution***

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. ***Share Capital***

Not applicable.

B. ***Memorandum and Articles of Association***

The information required by this item is incorporated herein by reference from our Registration Statement on Form 20-F filed on filed on August 29, 2013, as amended on October 23, 2013, November 21, 2013 and December 3, 2013.

C. ***Material Contracts***

There are no other contracts, other than those disclosed in this annual report 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 annual report:

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 "Business Overview".

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 re-approved by the shareholders of the Company on June 4, 2014 and by the TSX as part of the Company's approval for the listing of its common shares. A copy of the shareholder rights plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at **www.sec.gov** in the United States.

4. The Company has a 10% rolling stock option plan which was last approved by the shareholders of the Company on June 4, 2014. A copy of the Option Plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at **www.sec.gov** in the United States.

5. Effective January 1, 2014, 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 twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Bond a base salary of $15,000 per month for the term of the agreement. Mr. Bond is eligible to receive a bonus on the performance of the Company.

6. Effective January 1, 2014, the Company entered into an employment agreement with Richard Lee, the CFO of the Company. The agreement is for a 36-month term. The agreement provides for a severance clause of twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Lee a base salary of $15,000 per month for the term of the agreement. Mr. Lee is eligible to receive a bonus on the performance of the Company.

7. Effective January 1, 2014, 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 twelve months' notice for termination. Pursuant to the agreement, the Company has agreed to pay Mr. Gambow a base salary of $15,000 per month for the term 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 28, 2012, the Company entered into a consulting agreement with James Wilson for client consulting services regarding the engineering, design, manufacture and sale of eduction tubes and all matters relating to eduction tubes. The agreement is for a 24-month term and at the sole discretion of the Company can be renewed for up to three six-month periods. Pursuant to the agreement, the Company has agreed to pay Mr. Wilson a monthly fee of $6,500 in consideration for a minimum of 80 hours per month devoted to the affairs of the Company. The agreement is the result of the sale and purchase agreement between the Company and James Wilson Company dated as at November 28, 2012.

10. 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.

11. On February 28, 2014, the Company entered into a renewal lease with BAML whereby BAML agreed to lease a 41,000 square foot facility in use by the Company in Bonham, Texas for $8,667 per month for a period of 6 months with an option to renew monthly for an additional 12 months.

D. ***Exchange Controls***

There are no government laws, decrees or regulations in Canada which restrict the export or import of capital or which affect the remittance of dividends, interest or other payments to non-resident holders of our common shares. Any remittances of dividends to United States residents and to other non-residents are, however, subject to withholding tax. See "Taxation" below.

E. ***Taxation***

Certain Canadian Federal Income Taxation

We consider that the following general summary fairly describes the principal Canadian federal income tax consequences applicable to a holder of our common shares who is a resident of the United States, who is not, will not be and will not be deemed to be a resident of Canada for purposes of the *Income Tax Act* (Canada) and any applicable tax treaty and who does not use or hold, and is not deemed to use or hold, his, her or its common shares in the capital of the Company in connection with carrying on a business in Canada (a "**non-resident holder**").

This summary is based upon the current provisions of the *Income Tax Act* (Canada), the regulations thereunder (the "**Regulations**"), the current publicly announced administrative and assessing policies of the Canada Revenue Agency and the Canada-United States Tax Convention as amended by the Protocols thereto (the "**Treaty**"). This summary also takes into account the amendments to the *Income Tax Act* (Canada) and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and assumes that all such Tax Proposals will be enacted in their present form. However, no assurances can be given that the Tax Proposals will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax consequences applicable to a holder of our common shares and, except for the foregoing, this summary does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax consequences described herein.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular holder or prospective holder of our common shares, and no opinion or representation with respect to the tax consequences to any holder or prospective holder of our common shares is made. Accordingly, holders and prospective holders of our common shares should consult their own tax advisors with respect to the income tax consequences of purchasing, owning and disposing of our common shares in their particular circumstances.

Dividends

Dividends paid on our common shares to a non-resident holder will be subject under the *Income Tax Act* (Canada) to withholding tax at a rate of 25% subject to a reduction under the provisions of an applicable tax treaty, which tax is deducted at source by the Company. The Treaty provides that the *Income Tax Act* (Canada) standard 25% withholding tax rate is reduced to 15% on dividends paid on shares of a corporation resident in Canada (such as the Company) to residents of the United States, and also provides for a further reduction of this rate to 5% where the beneficial owner of the dividends is a corporation resident in the United States that owns at least 10% of the voting shares of the corporation paying the dividend.

Capital Gains

A non-resident holder is not subject to tax under the *Income Tax Act* (Canada) in respect of a capital gain realized upon the disposition of a common share of the Company unless such share represents "taxable Canadian property", as defined in the *Income Tax Act* (Canada), to the holder thereof. Our common shares generally will be considered taxable Canadian property to a non-resident holder if:

- the non-resident holder;
- persons with whom the non-resident holder did not deal at arm's length; or
- the non-resident holder and persons with whom such non-resident holder did not deal at arm's length,

owned, or had an interest in an option in respect of, not less than 25% of the issued shares of any class of our capital stock at any time during the 60 month period immediately preceding the disposition of such shares. In the case of a non-resident holder to whom shares of the Company represent taxable Canadian property and who is resident in the United States, no Canadian taxes will generally be payable on a capital gain realized on such shares by reason of the Treaty unless the value of such shares is derived principally from real property situated in Canada.

United States Federal Income Taxation

The following is a general discussion of United States federal foreign income tax matters under current law, generally applicable to a U.S. Holder (as defined below) of our common shares who holds such shares as capital assets. This discussion addresses the material United States federal income tax consequences but does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. See "Certain Canadian Federal Income Tax Consequences" above.

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury Regulations, published Internal Revenue Service ("**IRS**") rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time. In addition, this discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time. No assurance can be given that the IRS will agree with such statements and conclusions, or will not take, or a court will not adopt, a position contrary to any position taken herein.

Holders and prospective holders of common shares should consult their own tax advisors with respect to federal, state, local, and foreign tax consequences of purchasing, owning and disposing of our common shares.

U.S. Holders

As used herein, a "**U.S. Holder**" includes a holder of less than 10% of our common shares who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, any entity which is taxable as a corporation for U.S. tax purposes and any other person or entity whose ownership of our common shares is effectively connected with the conduct of a trade or business in the United States. A U.S. Holder does not include persons subject to special provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals or foreign corporations whose ownership of our common shares is not effectively connected with the conduct of a trade or business in the United States and shareholders who acquired their shares through the exercise of employee stock options or otherwise as compensation.

Distributions

The gross amount of a distribution paid to a U.S. Holder will generally be taxable as dividend income to the U.S. Holder for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions which are taxable dividends and which meet certain requirements will be "unqualified dividend income" and taxed to U.S. Holders at a maximum U.S. federal rate of 15%. Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of the U.S. Holder's tax basis in the common shares and, to the extent in excess of such tax basis, will be treated as a gain from a sale or exchange of such shares.

Capital Gains

In general, upon a sale, exchange or other disposition of common shares, a U.S. Holder will generally recognize a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other distribution and the U.S. Holder's adjusted tax basis in such shares. Such gain or loss will be U.S. source gain or loss and will be treated as a long-term capital gain or loss if the U.S. Holder's holding period of the shares exceeds one year. If the U.S. Holder is an individual, any capital gain will generally be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

Foreign Tax Credit

A U.S. Holder who pays (or has had withheld from distributions) Canadian income tax with respect to the ownership of our common shares may be entitled, at the option of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and generally applies to all foreign income taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations which apply to the tax credit, among which are an ownership period requirement and the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In determining the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. There are further limitations on the foreign tax credit for certain types of income such as "passive income", "high withholding tax interest", "financial services income", "shipping income", and certain other classifications of income. **The availability of the foreign tax credit and the application of these complex limitations on the tax credit are fact specific and holders and prospective holders of our common shares should consult their own tax advisors regarding their individual circumstances.**

F. ***Dividends and Paying Agents***

Not applicable.

G. ***Statement by Experts***

Not applicable.

H. ***Documents on Display***

Additional information, including the Company's Consolidated Financial Statements, press releases and other required filing documents are available under the Company's profile on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the United States and on the Company's website at www.kelsotech.com. Copies of such documents may also be viewed by appointment during normal business hours at our registered and records office being the offices of Clark Wilson LLP, 900 – 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1 during normal business hours.

I. ***Subsidiary Information***

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 11. Quantitative and Qualitative Disclosures About Market Risk

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as a financial asset at FVTPL, accounts receivable is classified as loans and receivables, and due to related parties and accounts payable are classified as other financial liabilities, which are measured at amortized cost. The carrying value of these instruments approximates their fair values due to their short term to maturity.

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

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

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 placed with a major Canadian financial institution and the Company's concentration of credit risk for cash and maximum exposure thereto as at December 31, 2015 was $3,175,292 (December 31, 2014 - $9,895,463).

With respect to its accounts receivable, the Company assesses the credit rating 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 accounts receivable and maximum exposure thereto as at December 31, 2015 was $1,706,488 (December 31, 2014 - $2,850,180). The Company's concentration of credit risk for accounts receivable with respect to Customer A (see note 15 to audited annual financial statements for the year ended December 31, 2015) as at December 31, 2015 was $894,224 (December 31, 2014 - $987,819), while Customer B was $236,037 (December 31, 2014 – $305,730). Customers C and D do not have any accounts receivable as at December 31, 2015

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 December 31, 2014, the Company had $3,175,292 (December 31, 2014 - $9,895,463) of cash to settle current liabilities with the following due dates: accounts payable of $543,903 (December 31, 2014 - $2,412,302); management bonus payable of $Nil (Fiscal 2014-$694,767); taxes payable of $2,004,272 (Fiscal 2014-$975,000) and; due to related party balance of $2,795 (Fiscal 2014-$15,187). All payables are due within a year.

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash consists of cash held in bank accounts that earn interest at variable rates. Due to the short-term nature of this financial instrument, fluctuations in market rates of interest do not have a significant impact on the estimated fair value or future cash flows.

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 December 31, 2015 and December 31, 2014, the Company's net exposure to foreign currency risk is as follows (in USD):

	As at December 31, 2015	As at December 31, 2014
Net Assets	$2,206,745	$5,696,267

Based on the above, assuming all other variables remain constant, a 16% weakening or strengthening of the USD against the CAD would result in approximately $353,000 (December 31, 2014 - $570,000) foreign exchange loss or gain in the consolidated statements of operations.

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.

See "Item 17. Financial Statements".

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

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 re- approved by the shareholders of the Company on June 4, 2014 and by the TSX as part of its approval of the listing of the common shares of the Company. The purpose of the shareholder rights plan is to: (a) ensure, to the extent possible, that all holders of the Common Shares of the Company and the Board have adequate time to consider and evaluate any unsolicited bid for the Common Shares; (b) provide the Board with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid: (c) encourage the fair treatment of the Company's securityholders in connection with any takeover bid made for the Common Shares; and (d) generally to assist the Board in enhancing shareholder value. One right as been issued in respect of each issued Common Share of the Company.

At its annual general and special meeting held on June 5, 2013, the Company obtained shareholder approval of certain amendments to the Articles of the Company to include provisions for: (i) uncertificated shares; (ii) conversion of fractional shares into whole shares in accordance with the *Business Corporations Act* (British Columbia); (iii) participation in shareholders' meetings by telephone and other communication mediums; (iv) flexibility to the board of directors to make certain alterations to the Company's authorized share structure by way of directors resolution as opposed to the Company having to incur the additional costs of obtaining shareholder approval; and (v) allowing for change of the Company's name by directors resolution instead of by an ordinary resolution of the shareholders of the Company. In addition shareholder's approved the adoption of 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.

Item 15. Controls and Procedures

A. Disclosure Controls and Procedures

As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 (the "**Exchange Act**"), our principal executive officer and principal financial officer evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report on Form 20-F. Based on this evaluation, these officers concluded that as of the end of the period covered by this Annual Report on Form 20-F, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These disclosure controls and procedures include controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed our internal control over financial reporting as of December 31, 2015, the end of our fiscal year. Management based its assessment on criteria established in *Internal Control—Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations (COSO 2013)*. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective, as of the end of the fiscal year, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Accounting Standards Board ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Attestation Report of the Registered Public Accounting Firm

Because the Company is an "emerging growth company" as defined in the United States Jumpstart Our Business Startups Act of 2012, the Company will not be required to comply with the auditor attestation requirements of the United States Sarbanes-Oxley Act of 2002 for as long as the Company remains an "emerging growth company", which may be for as long as five years following its initial registration in the United States.

Changes in Internal Control over Financial Reporting

Our management has evaluated, with the participation of our chief executive officer and chief financial officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal year have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, our management has concluded that no such changes occurred during the period covered by this annual report on Form 20-F.

Item 16. [Reserved]

A. ***Audit Committee Financial Expert***

Our board of directors has determined that Phil Dyer qualifies as an "audit committee financial expert" as defined in Item 16A(b) of Form 20-F, and is an "independent director" as the term is defined by Section 803 of the NYSE MKT Company Guide.

B. ***Code of Ethical Conduct***

The Company adopted a Code of Business Conduct and Ethics on August 1, 2014, which was amended and adopted by the Board of Directors on March 23, 2015 that applies to all of the Company's directors and employees, including the Company's principal executive officer and principal financial officer. The full text of the Company's Code of Business Conduct and Ethics is available under the Company's profile on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the United States and on the Company's website at www.kelsotech.com.

C. ***Principal Accountant Fees and Services***

Audit Fees. This category includes the fees for the audit of our financial statements and the quarterly reviews of interim financial statements. This category also includes advice on audit and accounting matters that arose during or as a result of the audit or the review of interim financial statements and services in connection with Securities and Exchange Commission filings.

Audit-Related Fees. This category includes assurance and related services that are reasonably related to the performance of the audit or review of the financial statements that are not reported under Audit Fees, and describes the nature of the services comprising the fees disclosed under this category.

Tax Fees. This category includes the fees for professional services rendered for tax compliance, tax advice and tax planning, and describes the nature of the services comprising the fees disclosed under this category.

All Other Fees. This category includes products and services provided by the principal accountant, other than the services reported under Audit Fees, Audit-Related Fees or Tax Fees.

Our current independent public accountants provided audit and other services during the fiscal year ended December 31, 2015 and the fiscal year ended December 31, 2014:

	December 31, 2015 ($)	December 31, 2014 ($)
Audit Fees	95,000	80,000
Audit-Related Fees	2,500	2,500
Tax Fees	30,000	N/A
All Other Fees	N/A	N/A
Total Fees	125,000	82,500

Pre-Approval Policies and Procedures

Our audit committee pre-approves all services provided by our independent auditors. All of the services and fees described under the categories of “Audit Fees”, “Audit Related Fees”, “Tax Fees” and “All Other Fees” were reviewed and approved by the audit committee before the respective services were rendered, and none of such services were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

The audit committee has considered the nature and amount of the fees billed by Smythe CPA, Chartered Professional Accountants, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining the independence of Smythe CPA, Chartered Professional Accountants.

D. Exemptions from the Listing Standards for Audit Committees.

Not Applicable.

E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not Applicable.

F. Change in Registrants Certifying Account

Not applicable.

G. Corporate Governance

The Company’s common shares are listed on NYSE MKT. Section 110 of the NYSE MKT Company Guide permits the NYSE MKT to consider the laws, customs and practices of foreign issuers, and to grant exemptions from NYSE MKT listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which the Company’s governance practices differ from those followed by domestic companies pursuant to NYSE MKT standards is as follows:

<u>Shareholder Meeting Quorum Requirement</u>: NYSE MKT recommends a quorum of at least 33 1/3%. The Company’s quorum requirement is set forth in its articles, which provides that a quorum for the transaction of business at a meeting of shareholders is one or more persons, present in person or by proxy.

<u>Proxy Delivery Requirement</u>: NYSE MKT requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies be solicited pursuant to a proxy statement that conforms to SEC proxy rules. The Company is a “foreign private issuer” as defined in Rule 3b-4 under the Exchange Act, and the equity securities of the Company are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. The Company solicits proxies in accordance with applicable rules and regulations in Canada.

H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

Financial Statements filed as part of the annual report:

The following financial statements and notes thereto are filed with and incorporated herein as part of this annual report:

Audited consolidated financial statements for the year ended December 31, 2015 including: independent auditors' report by Smythe CPA, Chartered Professional Accountants, consolidated statements of financial position as at December 31, 2015 and 2014.

Item 18. Financial Statements

See "Item 17. Financial Statements".

Item 19. Exhibits

Exhibit No.	Description
(3)	**Articles of Incorporation and Bylaws**
3.01	Certificate of Incorporation(1)
3.01a	Certificate of Name Change(1)
3.01b	Notice of Articles(1)
3.01c	Articles(1)
(4)	**Securityholder Rights**
4.01	Shareholders Rights Plan dated February 3, 2011(1)
(10)	**Material Contracts**
10.01	Professional Services Agreement with Bondwest Enterprises Inc. dated January 1, 2014(3)
10.02	Professional Services Agreement with Richard Lee dated January 1, 2014(3)
10.03	Professional Services Agreement with Neil Gambow dated January 1, 2014(3)
10.04	Stock Option Plan(1)
10.05	Lease Agreement with Bonham Associates Management Ltd. dated November 1, 2012(1)
10.06	Sale and Purchase Agreement with James Wilson Company dated November 28, 2012(1)
10.07	Consulting Agreement with James Wilson dated November 28, 2012(1)
10.08	Agreement with Barry LaCroix for Patent No. US 7,104,722 B2 dated May 26, 2010(1)
10.09	Notice of Recordation of Assignment Document for US Patent No. 7104722(1)
10.10	Notice of Recordation of Assignment Document for US Patent No. 5855225(1)
11	Code of Business Conduct and Ethics dated March 23, 2015(3)
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit No.	Description
13.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(21)	**Subsidiaries**
21.01	List of Subsidiaries(1)
(99)	**Additional Exhibits**
99.1	Audited annual financial statements for the year ended December 31, 2013(2)
99.2	Audited annual financial statements for the year ended December 31, 2014(4)
99.3	Audited annual financial statements for the year ended December 31, 2015(5)

*Filed herewith

(1) Incorporated by reference from the applicable exhibit to our registration statement on Form 20-F filed on August 29, 2013.
(2) Incorporated by reference from the applicable exhibit to our Form 6-K filed on March 31, 2014.
(3) Incorporated by reference from the applicable exhibit to our Form 6-K filed on March 26, 2015.
(4) Incorporated by reference from the applicable exhibit to our Form 6-K filed on March 26, 2015.
(5) Incorporated by reference from the applicable exhibit to our Form 6-K filed March 29, 2016.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KELSO TECHNOLOGIES INC.

By: *<u>/s/ James R. Bond</u>*
James R. Bond
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 30, 2016

By: *<u>/s/ Richard Lee</u>*
Richard Lee
Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

Date: March 30, 2016