

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

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

For the fiscal year ended December 31, 2019

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)

**James R. Bond, CEO**  
**13966 18B Avenue**  
**Surrey, British Columbia V4A 8J1, Canada**  
**Telephone: 250.764.3618**  
**Email: [bond@kelsotech.com](mailto:bond@kelsotech.com)**  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Copy of communications to:  
**Bernard Pinsky**  
**Clark Wilson LLP**  
**Suite 800 – 885 West Georgia Street**  
**Vancouver, British Columbia, Canada, V6C 3H1**  
**Telephone: 604.687.5700**  
**Facsimile: 604.687.6314**

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

Title of Class	Name of each exchange on which registered
<b>Common Shares Without Par Value</b>	<b>NYSE American (KIQ) Toronto Stock Exchange (KLS)</b>

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.

**47,170,086 common shares without par value outstanding on December 31, 2019.**  
**There were no Class A non-cumulative preference shares outstanding on December 31, 2019.**

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 REGISTRANT AT THIS TIME [X] YES [ ] NO**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of an "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]  
Emerging growth company [ ]

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  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  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. Emerging Growth Companies have less than \$1,070,000,000 in annual gross revenues.**

TABLE OF CONTENTS

	<b>Page</b>
<b>FORWARD-LOOKING STATEMENTS</b> .....	<b>3</b>
<b>PART I</b> .....	<b>4</b>
<b>Item 1. Identity of Directors, Senior Management and Advisers</b> .....	<b>4</b>
A. Advisers .....	4
B. Auditors .....	4
<b>Item 2. Offer Statistics and Expected Timetable</b> .....	<b>5</b>
<b>Item 3. Key Information</b> .....	<b>5</b>
A. Selected Financial Data.....	5
B. Capitalization and Indebtedness.....	5
C. Reasons for the Offer and Use of Proceeds.....	6
D. Risk Factors .....	6
<b>Item 4. Information on the Company</b> .....	<b>9</b>
A. History and Development of the Company .....	9
B. Business Overview.....	13
C. Organizational Structure .....	19
D. Property, Plants and Equipment.....	19
<b>Item 5. Operating and Financial Review and Prospects</b> .....	<b>19</b>
A. Operating Results.....	21
B. Liquidity and Capital Resources .....	23
C. Research and Development, Patents and Licenses, etc. ....	24
D. Trend Information .....	24
E. Off-Balance Sheet Arrangements .....	24
F. Tabular Disclosure of Contractual Obligations.....	24
<b>Item 6. Directors, Senior Management and Employees</b> .....	<b>24</b>
A. Directors and Senior Management.....	24
B. Compensation .....	27
C. Board Practices .....	30
D. Employees.....	33
E. Share Ownership.....	33
<b>Item 7. Major Shareholders and Related Party Transactions</b> .....	<b>33</b>
A. Major Shareholders .....	33
B. Related Party Transactions.....	34
<b>Item 8. Financial Information</b> .....	<b>34</b>
A. Financial Statements and Other Financial Information.....	34
B. Significant Changes .....	35
<b>Item 9. The Offer and Listing</b> .....	<b>35</b>
A. Offer and Listing Details.....	35
B. Plan of Distribution .....	37
C. Markets .....	37
D. Selling Shareholders .....	37
E. Dilution .....	37
<b>Item 10. Additional Information</b> .....	<b>37</b>
A. Share Capital.....	37
B. Memorandum and Articles of Association.....	37
C. Material Contracts.....	37
D. Exchange Controls.....	39
E. Taxation .....	39
F. Dividends and Paying Agents.....	41
G. Statement by Experts .....	41
H. Documents on Display .....	41
I. Subsidiary Information .....	41

<b>Item 11.</b>	<b>Quantitative and Qualitative Disclosures About Market Risk.....</b>	<b>42</b>
<b>Item 12.</b>	<b>Description of Securities Other than Equity Securities .....</b>	<b>43</b>
<b>Part II</b>	<b>.....</b>	<b>43</b>
<b>Item 13.</b>	<b>Defaults, Dividend Arrearages and Delinquencies.....</b>	<b>43</b>
<b>Item 14.</b>	<b>Material Modifications to the Rights of Security Holders and Use of Proceeds.....</b>	<b>43</b>
<b>Item 15.</b>	<b>Controls and Procedures .....</b>	<b>43</b>
<b>Item 16.</b>	<b>[Reserved] .....</b>	<b>45</b>
	A. Audit Committee Financial Expert .....	45
	B. Code of Ethics.....	45
	C. Principal Accountant Fees and Services .....	45
	D. Exemptions from the Listing Standards for Audit Committees. ....	46
	E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers. ....	46
<b>Part III</b>	<b>.....</b>	<b>55</b>
<b>Item 17.</b>	<b>Financial Statements.....</b>	<b>46</b>
<b>Item 18.</b>	<b>Financial Statements.....</b>	<b>55</b>
<b>Item 19.</b>	<b>Exhibits .....</b>	<b>46</b>

## 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”), as issued by the International Accounting Standards Board (“IASB”), unless expressly stated otherwise.

As used in this annual report, Company means Kelso Technologies Inc. and the Company’s wholly-owned subsidiaries Kelso Technologies (U.S.A.) Inc., KIQ Industries Inc., Kel-Flo Industries Inc., KIQ X Industries Inc. and KXI Wildertec Industries Inc. (collectively the “Company”).

## COVID-19 IMPACT UPDATE ON NORTH AMERICAN OPERATIONS

While certain government authorities in North America have ordered the closure or minimization of all non-essential business operations in regions where they operate, the Company falls within the exemptions for essential businesses that provide essential products and workforces that carry out critical manufacturing. Kelso therefore plans to continue operations at its valve assembly facility in Bonham, Texas while being mindful of the potential impacts of COVID-19 in light of current conditions.

The Company carries out essential services as a producer and reliable supplier of specialized rail tank car service equipment necessary for the safe operation and maintenance of rail tank car transportation systems. As a producer of specialized valves used in the transport of hazardous commodities, our products remain crucial for the safe delivery of hazardous materials by rail transport in North America as they can mitigate the negative impacts of human error and environmental harm.

The Company continues to be committed to the health and safety of our employees, business partners and communities where we operate. We are applying comprehensive and rigorous hygiene policies and employee temperature monitoring practices lower risk. Management will maintain full adherence to measures put in place by applicable government authorities.

The Company’s working capital was at a very healthy level at \$7,937,873 at December 31, 2019. The first quarter of 2020 remains productive at the same general level as 2019 and the pandemic has had no negative impact on our working capital and our ability to continue business operations. The Company has no interest-bearing long term debt creditors and currently operates without the need for new equity capital or credit facilities. The Company’s risk of needing to access additional operating capital in the near term remains very low. The Company’s capital management allows Kelso to finance operations and R&D from the existing capital reserves and the sales of our products avoiding the immediate need for any dilutive new equity funding or interest-bearing long-term debt.

Although there can be no assurance against a severe downturn in the Company’s valve business given the current crisis conditions the Company intends to fulfill its responsibility to continue operations to allow critical rail transportation to operate resiliently during the COVID-19 pandemic response.

## 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 <i>Director, President and Chief Executive Officer</i>	As President and Chief Executive Officer, Mr. Bond is responsible for strategic planning and operations, as well as managing the Company’s 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.
Peter Hughes <i>Director and Lead Director</i>	As an independent director, Mr. Hughes supervises the Company’s senior management and Board and helps to ensure compliance with the Company’s corporate governance policies and standards.
Anthony (“Tony”) Andrukaitis <i>Director and Executive Vice President Business Development and Chief Operating Officer</i>	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 Company’s plant in Bonham, Texas and will continue to take an active management role in pursuing growth of business opportunities, including mergers and acquisitions.
Edward Paul (“Paul”) Cass <i>Director and Audit Committee Member</i>	As an independent director, Mr. Cass supervises the Company’s management and helps to ensure compliance with the Company’s corporate governance policies and standards.
Laura Roach <i>Director</i>	As an independent director, Ms. Roach supervises the Company’s management and helps to ensure compliance with the Company’s corporate governance policies and standards.
Jesse V. Crews <i>Director and Audit Committee Member</i>	As an independent director, Mr. Crews supervises the Company’s management and helps to ensure compliance with the Company’s corporate governance policies and standards.
Frank Busch <sup>(1)</sup> <i>Director and Audit Committee Member</i>	As an independent director, Mr. Busch supervises the Company’s management and helps to ensure compliance with the Company’s corporate governance policies and standards.
Richard Lee <i>Chief Financial Officer</i>	As the Company’s Chief Financial Officer, Mr. Lee is responsible for the management and supervision of all financial aspects of the Company’s business.

<sup>(1)</sup> On February 11, 2020 Mr. Phil Dyer resigned as a director of the Company and Mr. Frank Busch was appointed to the Board and a member of the Audit Committee in his place. Mr. Busch is an independent director.

The business address for the Company 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 independent registered auditors are Smythe LLP, Chartered Professional Accountants, with a business address at #1700 – 475 Howe Street, Vancouver, British Columbia, Canada V6C 2B3. Smythe LLP, Chartered Professional Accountants, are members of the 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 LLP, Chartered Professional Accountants were first appointed as the Company's auditors on November 23, 2006.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

*A. Selected Financial Data*

*Prepared In Accordance With IFRS*

The following table summarizes selected financial data for the Company for the years ended December 31, 2019, 2018 and 2017 prepared in accordance with IFRS, as issued by the IASB. The information in the table was extracted from the consolidated 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 28 below.

**Selected Financial Data**

<b>Statements of Income (Loss) Data</b>	<b>Year ended December 31, 2019 (audited) (\$)</b>	<b>Year ended December 31, 2018 (audited) (\$)</b>	<b>Year ended December 31, 2017 (audited) (\$)</b>
Revenues	20,550,682	12,716,596	6,062,778
Gross Profit	9,582,879	5,287,216	1,018,685
Net Income/(Loss) and Comprehensive Income/(Loss)	3,334,043	194,453	(5,015,911)
Basic and Diluted Earning/(Loss) per Share	0.07	0.00	(0.11)

<b>Statement of Financial Position Data</b>	<b>As at December 31, 2019 (audited) (\$)</b>	<b>As at December 31, 2018 (audited) (\$)</b>	<b>As at December 31, 2017 (audited) (\$)</b>
Assets	13,731,571	9,944,990	9,165,199
Current Liabilities	1,795,745	1,779,256	1,599,966
Shareholders' Equity/(Deficiency)	11,845,275	8,165,734	7,565,233
Capital Stock	23,366,542	23,366,542	23,231,252
(Deficit)/Retained Earnings	(15,759,576)	(19,093,619)	(19,288,072)
Outstanding Common Shares	47,170,086	47,170,086	46,911,752

*B. Capitalization and Indebtedness*

Not applicable.

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

Not applicable.

**D. *Risk Factors***

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

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

*Risks Relating to the Business*

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

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

The Company has obtained patents for its external constant force spring pressure relief valve, one-bolt manway system, vacuum relief valve, PCH valve, PCL valve and bottom outlet valve. The Company has patents pending for its Active Suspension Control System for commercial rugged wilderness vehicles. If the Company is unable to secure trademark and patent protection for the Company's 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 the Company's railroad equipment products and other aspects of the Company's business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although the Company is not aware of any such claims the Company may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of the Company's business. If the Company is found to have violated the intellectual property rights of others, the Company may be enjoined from using such intellectual property, and the Company may incur licensing fees or be forced to develop alternatives. In addition, the Company may incur substantial expenses and diversion of management time in defending against these third-party infringement claims, regardless of their merit successful infringement or licensing claims against the Company may result in substantial monetary liabilities, which may materially and adversely disrupt the Company's business.

*The Company may be unable to secure or maintain regulatory qualifications for its product.*

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 certification for the Company's 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 certification. 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 revenues.

*The Company may not have sufficient capital in the future to meet rapid increases in production demands and may be unable to sustain its ability to grow its operations as quickly as anticipated.*

Although the Company had a positive working capital position in the amount of \$7,937,873 at December 31, 2019 the Company may, from time to time, report a working capital deficit. To maintain its activities, the Company may require access to additional capital through the sale of securities or obtaining debt financing. There can be no assurance that the Company will be successful in obtaining such additional financing and failure to do so could result in the inability of the Company to develop new products, meet production schedules; execute delivery orders and continue its operations.

*The Company has a limited operating history of earnings and may not be able to 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 the Company's growth objectives. There is no assurance that the Company will be able to successfully complete the Company's 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 the Company's ongoing obligations and the Company's ability to obtain additional financing necessary to continue operations may also be adversely affected. Even if the Company is successful in developing one or more additional product lines, there is no assurance that these product lines or the Company's existing product lines will be profitable.

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

Markets for the Company's products may not develop as quickly as anticipated, or at all, resulting in the Company being unable to meet 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.

*Unforeseen competition could affect the Company's ability to grow its revenues as projected.*

Although the Company has patents, trademarks and other protections in place to protect the proprietary technology on which the Company's business is dependent, competitive products may be developed in the future. Competition could adversely affect the Company's ability to acquire additional market share or to maintain revenue at current and projected levels.

*Customer orders that are placed may be cancelled or rescheduled.*

Although the Company makes efforts to ensure customers are satisfied with the Company's products, there is a risk that customers may cancel purchase orders before they are filled. This 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 be able to mitigate the risk of loss to the Company from cancelled orders in this manner.

*The Company is dependent on a small number of rail tank car OEM customers.*

Although management is optimistic about the Company's future as a railway equipment supplier the Company is dependent upon three major OEM customers in North America. They represent the majority of the annual railroad tank car production and generate the bulk of the Company's annual rail tank car revenue. Although customers have displayed a pattern of consistent product orders over the past 24 months and timely payment of accounts owing, there can be no assurance 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 when purchase orders are received. The Company expects that this small number of customers will continue to represent a substantial portion of its rail tank car-based sales for the foreseeable future. The loss of any of these customers could have a material negative impact upon the Company and its operational results.

*Current 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 customer orders. Any one of these effects may have a material negative impact on the Company's ability to generate revenue and continue operations.

*There may be a shortage of parts and raw materials.*

The Company currently has approximately three to five suppliers in the United States for each of the component parts and raw materials required to assemble the Company's finished products. There is a risk that the Company may face a shortage of parts and raw materials in the future if the Company's suppliers are unable to support current or increased customer demand for the Company's products. This could have a material negative impact on the Company, its revenues and continued operations. As previously stated, the Company has numerous suppliers for each component part required to assemble a finished product however the current effects of the COVID-19 virus could possibly disrupt supply chains in the future. To date the Company has not experienced any problems.

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

The Company's production facilities may not be large enough to handle growing market demand for the Company's products if market demand is 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 product development efforts may not result in new qualified commercial products.*

The Company is dedicated to the research, development and creation of new products for the railroad industry and wilderness transportation equipment. The goal is to successfully develop new markets for these new products in other industries although they may not result in commercially accepted products or applications. This may have a negative impact on the Company as its current products may cease to be commercially valuable technologies and the Company may not have a replacement or alternative product offering. The Company's investment in new product development is written off in the period in which it is incurred to account for the unpredictable nature of R&D projects.

*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 \$4,000,000 in aggregate and \$1,000,000 per incident, as well as product liability insurance for claims up to \$4,000,000 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.

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

Many of the materials used in the Company's products are common raw materials such as steel and rubber. These raw materials 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 the Company's products and the Company's operating results. As the Company does not have any purchase agreements with customers, the Company is able to mitigate the risks associated with price fluctuations in the Company's raw materials by adjusting the pricing of the Company's products accordingly. However, there is no guarantee that customers will continue to purchase the Company's products if prices are adjusted due to the fluctuation in the price of raw materials.

*The success of the Company's business depends substantially on the continuing efforts of 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, Chief Financial Officer and the Chief Operating Officer of Kelso Technologies Inc. and its subsidiaries Kelso Technologies (USA) Inc., KIQ Industries Inc., KIQ X Industries Inc., Kel-Flo Industries Inc., KIQ X Industries Inc. and KXI Wildertec Industries Inc. These individuals are under contractual obligations to the Company expiring on December 31, 2020, however 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.

*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.

*Government regulation may shut down operations as a result of the COVID-19 virus.*

While we expect that the Company's operations will remain open as an essential service, authorities may restrict access to work more severely than currently anticipated and shut down our manufacturing facility, in which case our revenue would suffer without product to sell.

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

#### **Item 4. Information on the Company**

##### ***A. History and Development of the 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 the Company's corporate name to "Kelso Technologies Inc.". The Company is currently organized pursuant to the *Business Corporations Act* (British Columbia) ("BCBCA") which replaced the *Company Act* (British Columbia) in 2004.

The Company's registered office is located at Suite 800 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The Company's corporate head office is located at 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 the Company's original Articles with new Articles to reflect the adoption of the BCBCA. On May 13, 2010, the Company consolidated the Company's 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 the Company's 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 (“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 American (“NYSE American”) 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 the Company’s five wholly-owned subsidiaries Kelso Technologies (USA) Inc., Kel-Flo Industries Inc., KIQ Industries Inc., KIQ X Industries Inc. and KXI Wildertec Industries Inc.. The Company owns 100% of the voting securities of each of the Company’s subsidiaries. None of the subsidiaries has a class of restricted securities. Kelso Technologies (USA) Inc. was incorporated on August 3, 2005 in the State of Nevada for potential use for operations in the United States. KIQ Industries Inc. was incorporated on October 7, 2014 in the State of Nevada for the purpose of working on the general development of new equipment concepts should they develop market interest. Kel-Flo Industries Inc. was incorporated on June 20, 2012 in the State of Nevada and is used as a structure to pursue the development of high-speed no-spill fuel loading technologies for locomotives. KIQ X Industries Inc. was incorporated on December 12, 2017 in the Province of British Columbia, Canada as an operating subsidiary for the development, production and sales of the Company’s proprietary KXI vehicle suspension system for wilderness terrain vehicles. KXI Wildertec Industries Inc. was incorporated on February 17, 2020 in the Province of British Columbia, Canada. KXI Wildertec Industries Inc. is currently an inactive corporation.

### General Development of the Business

#### *General*

The origins of the Company are as 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’s unaudited revenues over the last eight quarters were as follows: \$5,303,193 for the quarter ended December 31, 2019; \$5,596,031 for the quarter ended September 30, 2019; \$3,977,170 for the quarter ended June 30, 2019; \$5,674,288 for the quarter ended March 31, 2019; \$4,177,880 for the quarter ended December 31, 2018; \$3,491,602 for the quarter ended September 30, 2018; \$2,535,236 for the quarter ended June 30, 2018; \$2,511,878 for the quarter ended March 31, 2018

The Company’s unaudited net income (loss) over the last eight quarters were as follows: \$1,242,539 for the quarter ended December 31, 2019; \$759,713 for the quarter ended September 30, 2019; \$240,887 for the quarter ended June 30, 2019; \$1,090,904 for the quarter ended March 31, 2019; \$374,790 for the quarter ended December 31, 2018; \$261,717 for the quarter ended September 30, 2018; \$(162,911) for the quarter ended June 30, 2018; \$(279,143) for the quarter ended March 31, 2018

### Three Year History

#### 2017

On February 8, 2017, the Company filed a United States provisional patent application and a corresponding Canadian patent application for an Active Suspension Control System and Method for No-Road Vehicles (“ASCS”). The ASCS patent applications owned by Kelso cover numerous new technologies. The Company anticipates filing further patent applications relating to the ASCS technology as the Company continues to develop and improve the ASCS technology. With the ASCS patent applications, the Company seeks proprietary rights protection to allow for the development of the Company’s business of converting existing commercial vehicles with the ASCS to give them heavy-duty, high-performance extreme wilderness environments. The innovations disclosed in the ASCS patent applications are believed to be unique and to represent a dramatic improvement over existing technologies presently

used in commercial off-road vehicles. Vehicles featuring the Company's proprietary technologies are expected to provide distinct advantages to customers in terms of safety, performance and economic efficiencies.

In accordance with M1003 manufacturing status policies and guidelines the AAR conducted the audit of the Company's Bonham, Texas facility from January 16 – 18, 2017. This audit is required to maintain M1003 certification which is a requirement for all tank car valve manufacturers. The audit was completed with no adverse findings and continuation of the Company's M1003 approval has been recommended by the lead auditor. In addition to the AAR review the Company's M1003 system has been audited by a number of key customers who have approved the Company's M1003 program as compliant with their own M1003 requirements. Achieving M1003 approval is indicative of the Company's commitment to American-made high-quality products. This includes product warranties and service that surpass all industry requirements.

On September 12, 2017, the Company obtained the non-exclusive distribution rights to a proven line of proprietary fueling technologies known as Hydrau-Flo®. The agreement covers the North American markets for a two-year period with an option for one additional year. Kelso will concentrate on railroad, military and marine applications.

In December 2017, the Company completed the design and implementation of the second generation of its ASCS prototype. The Company also successfully outfitted a F150 production prototype with the ASCS. The Prototype featured the Company's suspension-related patents (pending) that have been designed to provide new heavy duty "road-to-no-road" performance capability in rugged wilderness terrains.

Implementation of Kelso's business infrastructure and plans for the ASCS project has commenced. The ASCS division of Kelso operates under the Company's wholly owned British Columbia subsidiary KIQ X Industries Inc., ("KIQX") located in Kelowna, BC, Canada. ASCS equipment will be marketed under the trade name Kelso KIQ X Gear™ and KXI™ Suspension Systems. The strategic plans for commercial production including sub-contracted facilities & equipment, supply chain and engineering commenced.

Commercial market planning commenced in March 2018. Initial marketing and sales initiatives for KIQ X Gear™ will focus on customers requiring reliable suspension performance in operations involving search & rescue, military, railroad, police & border patrol, emergency first response, railroads, mining, forestry, agriculture, ranching, pipelines, telecommunications, oil, gas, electric transmission and recreation.

## **2018**

On February 15, 2018 the Company's commercial testing of the Company's rail WCS was completed. The WCS is designed for rail wheel cleaning operations to facilitate speed retardation in railroad hump yards and industrial shipping facilities.

The Company's WCS is a unique proprietary (patent pending) rail wheel cleaning system that has been designed in cooperation with Class I railroads. It addresses the problematic issue of railcar wheels "caking" with various commodities during operations. Another key feature of the WCS is that it improves the effectiveness of speed retarders to reduce the number of over speed incidents in train assembly operations. The industrial heavy-duty cleaning capabilities provided by the WCS for railcar operations can reliably maintain and improve the performance of rolling stock. Some of the more challenging commodities addressed by the WCS include crude oil/tar, salt water slurry, flour water slurry, Portland cement, lime powder slurry, sugar water slurry, potash and sulfur.

On April 17, 2018 Mr. Jesse V. Crews was appointed to the board of the Company as an independent director.

In May 2018 Kelso had substantially completed its engineering designs for its second production vehicle prototype featuring its proprietary ASCS. Effective June 1, 2018 the Company secured a leased 3,400 square foot business facility in Kelowna, BC, Canada with the goal to operate administration, marketing, driver education, spare parts, repairs and maintenance, sales, distribution and product development. For convenience the premise is located several blocks from our sub-contracted production facilities. Production tooling and beginning to engage supply chain administration for conversion of multiple vehicles that will be available to the market.

The ASCS has been developed with emphasis on providing distinct advantages to customers in terms of better safety characteristics and more effective operational capabilities while mitigating the impact of human error and

environmental damage in outback operations. The ASCS is ideal for customers who need to traverse rough outback terrain in a wheeled vehicle for the purpose of reaching remote destinations with multiple passengers and maximum payload. Although designed for commercial use it is well suited for both industry and leisure markets.

A key design dynamic is safety with minimal environmental impact. The engineering incorporated in our ASCS is based on thirty years of research and experience and over 24 custom vehicle builds. The ASCS is believed to represent a dramatic improvement over existing technologies presently used in commercial combined road-no-road vehicles. At just under 2 pounds PSI (humans range from 5 to 9 pounds PSI) the ASCS equipped vehicle will have minimum environmental impact on outback operations due to the distribution of the overall weight of the vehicle.

The advantage of the ASCS is its ability to adjust the center-of-gravity of the vehicle during operations with its proprietary automated gyroscopic controlled air suspension. This ensures that the driver, passengers and payload remain in as safe, stable and level position as possible when driving in difficult rugged outback terrains including flooded areas. The ASCS technology package is well suited for use in desert, mountain, snow and low-lying water regions around the world.

Production tooling and supply chain was initiated in the second half of 2018. Experimental prototype No. 3 was commenced and completed in late 2018. The No. 3 prototype is currently being tested in road-no-road rugged terrain environments.

## 2019

During 2019 Kelso continued to build on the stature of its brand as a leading developer and supplier of a wide range of proprietary tank car valves designed for use in the hazmat shipment market. The Company promoted its strategic plan of customer driven product development and business strategies to bring Kelso unique competitive advantages with its customers. Investments in customer driven co-engineered product development improved the probability of future market adoption. This allows focus on marketing initiatives to capitalize on future sales opportunities.

Kelso focuses on its high-quality production capabilities. On January 15, 2019 Kelso received its M-1003 certification from the AAR after completion of a detailed audit which resulted in no material negative findings. The certification will be in effect until January 15, 2022.

In 2019 our products proved to deliver a longer-term economic value proposition for tank car stakeholders. This value included reliable high-quality equipment, unprecedented warranties, high service standards and short lead times for delivery. Diverse products sold in 2019 included pressure relief valves, vacuum relief valves, pressure car valves, one-bolt manways and related equipment, emergency response equipment for hazmat first responders, no spill locomotive fuelling equipment and other specialty valves, parts, equipment and services. For the year ended December 31, 2019, the Company reported growth of net income to \$3,334,043 (\$0.07 per share) against revenues of \$20,550,682 compared to a net income of \$194,453 (\$0.00 per share) against revenues of \$12,716,596 for the year ended December 31, 2018.

During 2019, in response to the continued concerns for the safety of emergency responders fighting wilderness fires Kelso continued the development of a unique vehicle suspension system that provided new rapid response “road-to-no-road” capabilities regardless of the climate or the severity of the terrain.

The catalyst to our interest in this business development opportunity was our dedication to public safety and the requests to the engineering community from governments, firefighters, emergency responders and other stakeholders for the creation of better technologies that can better respond to threats to public safety and better protection of firefighters in the wilderness.

We considered the engineering challenge and ambition worth pursuit as environmental experts warn that that the net damage costs and human safety issues due to climate change events are likely to significantly increase in the upcoming years due to intensified weather events such as wildfires, hurricanes, tornadoes, flooding and drought. Wilderness and populated areas will be in harms way and society will have to respond to these events with better capabilities, faster response times and improved effectiveness.

Kelso through its wholly owned subsidiary KIQ X Industries continued its plans to become a leading developer of this new generation of specialized wilderness response transportation equipment. Products in development grew to include the proprietary KXI vehicle suspension system, ordinance trailers, custom tires and other specialty equipment.

In 2020 the Company is scheduled to complete two KXI equipped production prototype vehicles to prepare for the first commercial offering to the marketplace. The Company will then move into a pilot production model where we intend to produce and sell 24 KXI equipped vehicles before scaling to our production needs based on projected sales and reserved orders.

During 2019 the Company registered the Company's stock option plan by filing a Form S-8, Registration Statement under the Securities Act of 1933 with the Securities and Exchange Commission, permitting our US based employees to exercise their stock options without further regulatory registration.

#### *Capital Expenditures*

The Company has no material 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 the Company's common shares during the Company's last financial year or current financial year.

### **B. Business Overview**

#### Markets and Business Model

Kelso is an engineering company that specializes in the development, production and distribution of proprietary service equipment used in transportation applications. Our reputation to date has been earned as a developer and reliable supplier of unique high-performance rail tank car equipment used in the handling and containment of hazardous and non-hazardous commodities during transport.

All Kelso products are developed with emphasis on economic and operational advantages to customers while mitigating the impact of human error and environmental releases. The Company offers specialized rail tank car and truck tanker equipment, no-spill fuel loading systems, first responder emergency response equipment and "road-to-no-road" suspension systems for motor vehicles being used in rugged wilderness terrains.

Over the last eight years the Company has established itself as a leading North American producer and supplier of specialized rail tank car equipment. The Company's core rail tank car products include pressure relief, vacuum relief and bottom outlet valves as well as a proprietary one-bolt manway. These products provide some of the key elements of a rail tank car's structure to ensure the safe handling and containment of hazardous materials during transport. With a solid history of innovative technology solutions and a reputation anchored by the reliability of supply, the Company serves many of North America's largest tank car builders and shippers with a wide range of custom engineering and production services.

The Company's common shares are publicly traded on the Toronto Stock Exchange under the trading symbol KLS and the NYSE American Exchange under the trading symbol KIQ. The Company listed on the Toronto Stock Exchange on May 22, 2014 and on the NYSE American Exchange on October 14, 2014. The Company operates in combination with its wholly owned subsidiaries Kelso Technologies (USA) Inc, KIQ X Industries Inc., Kel-Flo Industries Inc. , KIQ Industries Inc.and KXI Wildertec Industries Inc.

Over the past five years management has established multi-million dollar sales of its products to North American rail tank car manufacturers (OEM) and retrofit/repair businesses. Revenues over the last five audited year end periods were as follows: \$20,550,682 for the year ended December 31, 2019; \$12,716,596 for the year ended December 31, 2018; \$6,062,778 for the year ended December 31, 2017; \$8,077,143 for the year ended December 31, 2016; and \$18,910,122 for the year ended December 31, 2015.

The Company's net earnings (loss) performance over the last five year end periods were as follows: net income of \$3,334,043 for the year ended December 31, 2019; net income of \$194,453 for the year ended December 31, 2018; a net loss of \$5,015,911 for the year ended December 31, 2017; a net loss of \$2,465,592 for the year ended December 31, 2016; net loss of \$2,510,826 for the year ended December 31, 2015.

Our primary market (hazmat rail tank cars) that slowed considerably during the rail recession in 2016 and 2017 improved in 2018 to restore the Company's financial health and remains profitable to the date of this report. Hazardous commodity businesses that were in cut back positions from 2015 to 2017 returned to healthier levels in 2018 with additional business momentum in 2019.

In North America industry rail tank car analysts expect tank car backlog to remain at healthy levels. Production in 2019 was approximately 21,000 tank cars and over 17,000 tank cars are projected in 2020. Overall tank car loadings increased 3.5% in 2019 and a 2.5% increase is expected in 2020. Kelso supplied its specialized tank car equipment to over 8,000 tank cars in 2018 and over 12,000 tank cars in 2019. Depending on the makeup of customers' specifications and the status of our AAR approvals, sales of our valves can range to over \$10,000 per tank car in future periods.

Long AAR approval processes slow our ability to improve sales with additional rail tank car equipment. The Company continues to pursue AAR approvals for our ceramic ball bottom outlet valve ("BOV"), pressure car pressure relief valve ("PCH"), ball valve, manway covers and angle valve although the process takes considerable time to complete. Final approvals will depend on administration of our restrictive budgets and the challenges of strict AAR testing requirements that are time consuming, risky and contrary to short-term profit goals. Management believes its AAR approved rail tank car products still provide meaningful revenue opportunities that will contribute to the longer-term health of Kelso.

Our roots and reputation in rail tank car technologies have established a solid foundation for corporate diversification strategies in new markets. New product development initiatives concentrate on a wider range of technology products that are designed to provide unique economic benefits and safe operational advantages to customers.

In response to a dismal performance in 2017 management actively looked for new diverse market opportunities outside of the rail industry to pursue. The goal was to spread our business risk to diminish the severe negative impact of the historic down cycles in the rail industry.

The growing challenges regarding the safety and access capabilities of emergency responders fighting wilderness fires motivated Kelso to begin the development of a unique vehicle suspension system. This innovative equipment provides new rapid response road-to-no-road capabilities regardless of weather, climate or the severity of the terrain. Known as the KXI™ Suspension System (KXI) it is based on thirty years of active wilderness research and experience.

In 2020 the Company is scheduled to complete two production prototype vehicles to prepare for the first commercial offering to the marketplace. The Company will then move into a pilot production model where we intend to produce and sell 24 vehicles before scaling to our production needs based on projected sales.

The catalyst to our interest in this business development were the requests to the engineering community from governments, firefighters, emergency responders and other stakeholders for the creation of new technologies that can better respond to threats to public safety and better protection of firefighters in the wilderness. These potential markets are multi-billion dollar opportunities. The total automotive aftermarket conversion industry is valued at approximately \$44 billion annually.

### Business Model

During the past decade Kelso has worked to become a leading developer and supplier of a wide range of proprietary rail tank car valves designed primarily for use in the hazmat shipment market. Our valve business has grown and proven to help shippers safely deliver hazmat commodities wherever they need to go in North America. The evolution to customer driven product development in recent years now bring Kelso unique competitive advantages with customers as management pursues its goals of positive financial performance for years to come.

Our business model is kept smart, simple and focused on customer needs. We concentrate on sound business fundamentals, operational practices, EBITDA returns and careful capital management. Today, we invest in customer driven co-engineered product development to improve the probability of market adoption. This allows us to prepare marketing initiatives to capitalize on sales opportunities. We monitor industry trends and regulated technology requirements to select R&D projects that can be fruitful for our future revenue streams. The ambition is that our engineering team can proactively resolve issues for customers before reactionary measures are required.

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

- experienced executive management, including directors and officers with many years of business experience;
- 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 "next generation" transportation service equipment for rail, road and wilderness transportation applications through in-house product development;
- product diversification plans to diminish revenue risk factors from historically cyclical products;
- acquisition of new or established products that can grow new markets under the Company's management;
- marketing initiatives that promote awareness of the quality of the Company's products and the economic value proposition they offer to interested stakeholders;
- reliable loyal customers to fuel predictable profitable business growth; and
- maintenance of a proven effective and efficient production infrastructure and capacity designed to meet demand.

Although still a small enterprise the Company believes that it remains at the forefront of technology development for the railroad industry as it has successfully developed new products 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 safe operational effectiveness and economic efficiencies in transportation systems. We are focused on our rail equipment and the development of our wilderness transportation equipment that can diversify and grow our revenues in new market segments.

#### Rail Tank Car Equipment Market

Currently we offer a wide range of proprietary valves and other specialty equipment for rail tank cars and road tankers. In the 1990's Kelso's origins were based on unique inventions that better served problematic safety issues in the transport of hazmat commodities. Our commercial business evolution began with the adoption of our patented constant force pressure relief valves during the surge in crude-by-rail (CBR) shipments from 2012 to 2015. Since 2012 the Company has distributed over 65,000 valves that has generated over \$100 million in revenues.

Our products provide a rewarding economic value proposition for all tank car stakeholders. This value includes reliable high-quality equipment, unprecedented warranties, high service standards and short lead times for delivery. Over the past decade Kelso has been able to develop a niche in the marketplace for many of our products. Key products include:

- Pressure relief valves
- Vacuum relief valves
- Bottom outlet valves (under AAR field service trials)
- Pressure car valves (under AAR field service trials)
- Ball valves (under AAR field service trials)
- One-bolt manways and related equipment
- Emergency response equipment for hazmat first responders
- No spill locomotive fuelling equipment
- Other specialty valves, parts, equipment and services

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

In order to measure and manage rail tank market opportunities the Company analyses the number of total tank car loadings annually to determine best business practices and key commodities to concentrate on in any given period.

The key industry metrics are as follows:

Measure	2014	2015	2016	2017	2018	2019	Estimated 2020
(In thousands)							
Total tank car loadings:	3,502	3,796	3,323	3,375	3,637	<b>3,729</b>	3,800
1. Chemicals (includes ethanol)	1,501	1,651	1,493	1,543	1,577	<b>1,574</b>	1,600
2. Petroleum	784	900	863	941	1,081	<b>1,173</b>	1,200
3. Food	439	452	433	438	452	<b>432</b>	444
4. Crude-by-rail	518	525	281	191	266	<b>339</b>	362
Number of tank cars delivered	35,293	36,065	17,841	8,948	10,455	<b>21,122</b>	TBD
Performance (In thousands of \$)							
Kelso revenues	\$ 23,817	\$ 18,911	\$ 8,077	\$ 6,063	\$ 12,717	<b>\$ 20,550</b>	TBD
EBITDA (loss)	\$ 6,844	\$ 386	\$ (3,056)	\$ (4,609)	\$ 1,002	<b>\$ 4,233</b>	TBD
Earnings (loss)	\$ 4,026	\$ (2,511)	\$ (2,466)	\$ (5,016)	\$ 194	<b>\$ 3,334</b>	TBD

Based on current projections from industry analysts total tank car loading levels in 2020 are expected to be consistent with 2019 levels.

The Company continues to develop new rail service equipment products that are anticipated to provide new financial growth opportunities for the Company. We focus on core design objectives that are:

- To ensure public safety by mitigating the potential negative environmental impacts of non-accidental releases of hazardous materials in transit.
- To manage negative and positive pressure within the tank thereby reducing the risks of implosion or explosion ensuring the safe containment of hazardous materials while being loaded, transported and unloaded.
- To improve the customers' operating effectiveness and economic rewards with proven reliable equipment.
- To build reliable equipment featuring high quality milled parts eliminating problematic cast parts that cause a high level of negative performance issues that lead to complex expensive repair logistics for customers.
- To ensure that customers benefit with more profitable in-service time for tank cars.

#### Wilderness Transportation Equipment Market

Kelso through its wholly owned subsidiary KIQ X Industries Inc. is working to become a leading developer of a new generation of specialized wilderness response transportation equipment. Products in development now include proprietary KXI vehicle suspension system, ordinance trailers, custom tires and other specialty equipment.

In 2017 in response to the growing problems and the safety of emergency responders fighting wilderness fires Kelso began the development of a unique vehicle suspension system that provided new rapid response road-to-no-road capabilities regardless of the climate or the severity of the terrain. Known as the KXI™ Suspension System (“KXI”) it is a unique technology based on thirty years of active wilderness research and experience.

In 2020 the Company is scheduled to complete two KXI equipped production prototype vehicles to prepare for the first commercial offering to the marketplace. The Company will then move into a pilot production model where we intend to produce and sell 24 KXI equipped vehicles before scaling to our production needs based on projected sales and reserved orders.

The catalyst to our interest in this business development opportunity were the requests to the engineering community from governments, firefighters, emergency responders and other stakeholders for the creation of better technologies that can better respond to threats to public safety and better protection of firefighters in the wilderness. These potential markets are multi-billion dollar opportunities. The total automotive aftermarket conversion industry valued at approximately \$44 billion annually.

We considered the engineering challenge and ambition worth their pursuit as environmental experts warn that that the net damage costs of climate change events are likely to significantly increase in the upcoming years due to intensified weather events such as wildfires, hurricanes, tornadoes, flooding and drought. Wilderness and populated areas will be in harms way and society will have to respond to these events with better capabilities, faster response times and improved effectiveness.

The basic design premise of KXI is to manage the center-of-gravity to better balance a wheeled vehicle with automated gyroscopic controlled air suspension. This ensures that the driver, passengers and payload remain in a stable level position when driving in difficult remote wilderness terrains including extreme hills and side-hill challenges. Our testing has confirmed that commercial stakeholders can expect the KXI to provide:

- All weather – all terrain “Road-To-No-Road” emergency response capabilities that eliminates time consuming trailer transportation costs for heavy equipment needed in difficult service areas.
- Better mobility capabilities for commercial customers who must operate in extreme rough wilderness terrains in wheeled vehicles for the purpose of safely reaching remote destinations with multiple passengers and maximum payload with minimal negative impact on the environment.
- Low environmental impact where KXI reduces nominal ground pressure of the vehicle (floatation weight) to under the government’s recommended 2 PSI resulting in no traceable disturbance or negative impact on the ground, wildlife or plant life.
- Gyroscopic balanced ride improves access in heavily sloped wilderness provides higher speed of response to emergency events.
- Cost reductions when helicopters, track-based vehicles and heavy equipment transport can be diminished by less expensive KXI technologies.

KXI is designed for the aftermarket conversion of existing vehicles. We do not build vehicles - we retrofit the KXI on currently available vehicles. The rollout plan for the KXI initially will be distribution to our development partners in Canada that operate in environmentally sensitive terrain before moving into the USA and other world markets.

### Production and Services

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

KXI production operations are located in Kelowna, British Columbia, Canada. The Company is currently producing two KXI equipped production prototypes that will form the foundation of our pilot production program. Production drawings and tooling will be completed and ready to be tested in a 24 vehicle limited pilot production run scheduled in 2020.

### 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 the Company's 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 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 ability of the Company to compete for and acquire production contracts for the Company's products in the future will depend on a number of factors, including the Company's ability to continue to offer reliable high quality technology, competitive pricing, timely delivery of purchase orders and strong customer service.

### Intangible Properties

The Company's intangible property, particularly the Company's intellectual property rights, plays an important role in securing the Company's competitive advantage. The Company held the patent for the Company's PRV technology Patent 5,855,225 which expired January 29, 2016. The Company holds the patents for the Company's PRV Patent No. 9,568,146 B1 issued February 14, 2017 and for the Company's OBM Patent 7,104,722 B2 which expires in 2023 and has a trademark for the Company's One Bolt Manway (Registration Number 4,282,652). The Company holds the patent for the Company's ceramic BOV Patent 9470320 issued on January 13, 2016. The Company also holds the patent for the Company's VRV, Patent 9,441,749 expiring in 2033. On February 8, 2017 the Company filed a United States provisional patent application and a corresponding Canadian patent application for an Active Suspension Control System and Method for No-Road Vehicles ("ASCS") and continued patent work and international patent applications were filed on February 3, 2018.

These patents and trademarks are critical to the Company's success as they provide a significant advantage to the Company over the Company's 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 rail business reflects the cyclical nature of the tank car industry. Historically, uptrend cycles can last up to 3 to 5 years, followed by reduced building activity for 3 to 5 years as inventories of new cars are worked into the fleet.

### Economic Dependence

The Company's business is dependent on the Company's ability to create, produce and distribute the Company's unique proprietary products such as the Company's patented pressure relief valves, one-bolt manway, vacuum relief valves bottom outlet valves and Wilderness Response Transportation Technologies. See "Material Contracts".

### Employees

As at December 31, 2019, the Company had 45 employees (December 31, 2018 – 40 employees), including employees of the Company's subsidiaries. The largest group of employees works at the Company's production facilities in Bonham, Texas and the remainder work in British Columbia.

### Reorganizations

In April 2010, the Company completed a reorganization of the Company's management team. In connection with this reorganization, in May 2010, the Company completed a consolidation of the Company's 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 the U.S. Department of Transportation and the Federal Railroad Administration, PHMSA and in Canada it is Transport Canada. The Company endeavours to develop all of the Company's products and operate the Company's business in compliance with all applicable government regulations and testing requirements. The Company certifies the Company's products on an ongoing basis in accordance with AAR guidelines and government regulations.

### **C. Organizational Structure**

The Company has five wholly-owned subsidiaries, Kelso Technologies (U.S.A.) Inc., KIQ Industries Inc., Kel-Flo Industries Inc. and KIQ X Industries Inc. Subsequent to the year-end the Company incorporated KXI Wildertec Industries Inc. Kelso Technologies Inc. owns 100% of the voting securities of each of the Company's subsidiaries. No subsidiary has a class of restricted securities. See "Information on the Company – History and Development of the Company".

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

The Company currently operates two facilities totalling 50,000 square feet in Bonham, Texas. The Company is fully qualified and certified to produce products for the railroad and other industries. It has been granted the required certifications including holding an AAR M1002 Class D Registration and AAR M1003 Quality Assurance System Certification for its production facilities from the Association of American Railroads. See "Business Overview" for additional information regarding the Company's facilities, including a discussion of the productive capacity and extent of utilization of the Company's facilities and products produced. To the best of the Company's knowledge, there are no environmental issues that may affect the Company's utilization of the Company's assets.

KXI production operations are located in Kelowna, British Columbia, Canada. The Company is currently producing two KXI equipped production prototypes that will form the foundation of our pilot production program. Production drawings and tooling will be completed and ready to be tested in a 24-vehicle limited pilot production run scheduled in 2020.

As at December 31, 2019, the total carrying value for the Company's property, plant and equipment was \$3,389,994 (December 31, 2018: \$3,087,893), the breakdown of which is as follows: land - \$12,558 (December 31, 2018: \$12,558), buildings - \$2,342,192 (December, 2018: \$2,439,784), leasehold improvements - \$6,474 (December 31, 2018: \$8,093), production equipment - \$237,642 (December 31, 2018: \$288,991) and prototypes \$686,336 (December 31, 2018: \$338,467).

At the time of this filing, the Company has no new plans for further acquisition or construction of new buildings as management feels that the Company's 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 the Company's financial condition and results of operations for the years ended December 31, 2019 ("**Fiscal 2019**"), December 31, 2018 ("**Fiscal 2018**") and December 31, 2017 ("**Fiscal 2017**") should be read in conjunction with the Company's audited consolidated financial statements and related notes included in this annual report in accordance with "Item 8 – Financial Information". The Company's financial statements for Fiscal 2019, Fiscal 2018 and Fiscal 2017 (collectively, the "**Reported Periods**") were prepared in accordance with IFRS as issued by the IASB.

	Year ended December 31 2019	Year ended December 31 2018	Year ended December 31 2017
Revenues	\$ 20,550,682	\$ 12,716,596	\$ 6,062,778
Cost of goods sold	\$ 10,967,803	\$ 7,429,380	\$ 5,044,093
Gross profit	\$ 9,582,879	\$ 5,287,216	\$ 1,018,685
Gross profit margin	46.6%	41.6%	16.8%
Expenses including non-cash items	\$ 6,149,759	\$ 5,343,927	\$ 6,184,892
Deferred income tax expense (recovery)	\$ -	\$ -	\$ (172,433)
Income tax expense (recovery)	\$ 99,077	\$ (251,164)	\$ 22,137
Net income (Loss) for the year	\$ 3,334,043	\$ 194,453	\$ (5,015,911)
Number of common shares outstanding	47,170,086	47,170,086	46,911,752
Basic earnings (Loss) per common share	\$ 0.07	\$ 0.00	\$ (0.11)
EBITDA(Loss)	\$ 4,233,339	\$ 1,017,153	\$ (4,608,683)
Cash	\$ 4,418,236	\$ 1,246,244	\$ 411,223
Working capital	\$ 7,937,873	\$ 4,469,882	\$ 3,628,911
Total assets	\$ 13,731,571	\$ 9,944,990	\$ 9,165,199
Shareholders' equity	\$ 11,845,275	\$ 8,165,734	\$ 7,565,233
Dividends paid per share	\$ 0.00	\$ 0.00	\$ 0.00

Revenues for 2019 rose due to increased demand for our rail tank car service equipment for applications in chemicals, petrochemicals, food and crude oil. Throughout 2019 Kelso continued to take successful measures to improve positive cash flows from operations. We began to see the correction of several years of weak financial performance in 2018 and the turnaround of sales momentum was very apparent in 2019. The uptrend in capital spending in the rail and truck hazmat marketplace fuelled our positive performance in 2019.

From 2017 through 2019 our strategic plan has been focused on re-branding Kelso as a reliable American made supplier of high-quality performance equipment for the rail tank car industry. This was an imperative strategic goal as management believed that it was essential to achieve a healthy turnaround of our future financial performance after a dismal 2017.

We have been able to stabilize our business environment, cut costs and eliminate an inefficient marketing workforce. Under these initiatives we have experienced improved sales growth with better contribution margins providing a steady improvement of our available capital reserves. This turn of events has allowed us to continue to pursue our ambitions to develop new business opportunities, sales growth and new products requiring regulatory certifications.

Although many operational and human resource expenses have been reduced over the past three years, our capital management remains challenging. However, recent improvements in cash flows from sales growth that started in 2018 and continued in 2019 have been more than adequate to fund our ongoing business activities. The Company currently operates without the need for immediate access to new equity capital or new credit facilities. The Company's goal is to avoid dilutive equity funding activities and to remain free of interest-bearing long-term debt.

Throughout the last three years, we have been able to stabilize Kelso with new business processes, new personnel, dramatic changes to our corporate culture and the successful introduction of a more effective and economic approach to customer service, marketing and sales. Our key objectives to achieve balanced growth of profitability through revenue streams from a more diverse portfolio of products were achieved in 2018 and 2019.

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**

### Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

For Fiscal 2019, the Company reported growth of net income to \$3,334,043 (\$0.07 per share) against revenues of \$20,550,682 compared to a net income of \$194,453 (\$0.00 per share) against revenues of \$12,716,596 for Fiscal 2018.

Gross profit margin grew to \$9,582,879 (47% of revenues) for Fiscal 2019 compared to \$5,287,216 (42% of revenues) for Fiscal 2018. Gross profits reflect our new business processes, production volume, new human resources, changes to our corporate culture and our improved approach to customer service, marketing and sales processes.

Total operational expenses rose to \$6,087,357 during Fiscal 2019 which were in line with management's expectations to facilitate the current rail business growth and the business development of our wholly owned subsidiary KIQ X Industries compared to \$4,955,448 for Fiscal 2018.

Factors in the reported income for Fiscal 2019 include expenses related to ongoing marketing initiatives in the amount of \$288,893 (2018 - \$266,152) and related travel costs of \$197,293 (2018 - \$159,800). These expenses are related to ongoing marketing programs for existing and new products entries. Our new customer service and marketing initiatives and sales processes have proven to be more effective and economically beneficial compared to past years. These changes contributed to a 62% increase in sales volume with above average gross margin returns.

A key component of our future business growth is the research, design, testing and qualification of new products. During Fiscal 2019 our industrial product design and development costs were \$1,129,007 (2018 - \$1,352,817). In addition to our ongoing rail equipment R&D the majority of these expenses relates to design and continuing testing of our KXI wilderness response technologies and includes the development expenses of production infrastructure to convert multiple vehicles for customers. New product developments are necessary to provide diverse opportunities for Kelso to grow its future revenues from new markets and diminish the financial affects of a historically cyclical rail tank car market.

Management continues to expand its rail operations and its new subsidiary KIQ X Industries featuring our KXI product development that is focused on the generation of new diverse business growth. This is reflected in our investments in human resources, marketing, sales and production operations for Fiscal 2019. The Company recorded office and administrative costs of \$2,219,711 (2018 - \$1,667,646), management compensation was \$1,037,586 (2018 - \$610,570). Management compensation includes an accrual for contractual management performance bonuses for the year ended December 31, 2019 of \$496,894 (2018 - \$70,035). Management bonuses are accrued by quarter and are paid based upon the audited year end balance not later than May 15 of the year following. In addition, the Company implemented a key employee bonus plan which amounted to \$280,900 for Fiscal 2019. This amount is to be paid not later than April 15, 2020. Consulting and filing fees were \$386,661 (2018 - \$196,823) while investor relations remained unchanged at \$84,000 (2018 - \$84,000).

Accounting, audit and legal fees are cost components of our corporate development strategies and the required administration functions of a publicly listed industrial company listed on two stock exchanges. Costs for these professional audit and legal services were \$321,945 for Fiscal 2019 (2018 - \$194,282). This includes ongoing US tax and audit requirements. Other legal costs relate to patent applications, public company administration including reorganization costs, the preparation and filing of press releases, documentation and reviewing possible acquisition targets and new business arrangements. Also included are the costs of complying with the rules and regulations of both the Toronto Stock Exchange and NYSE American Exchange including the complexities of regulatory documentation and Annual Information Form (AIF) and Securities Exchange Commission documentation (Form 20-F and Form S-8).

The Company's functional currency is US dollars but Kelso also holds various assets in Canadian dollars. The Canadian dollar has remained volatile in value against the US dollar therefore we have recorded an unrealized foreign exchange loss of \$27,698 for Fiscal 2019. Net income and comprehensive income for Fiscal 2019 was \$3,334,043 after deducting non-cash items. In accordance with IFRS, reported income includes items not involving

cash. These include amortization of \$384,827, share-based expense (“**Black-Scholes**”) in the amount of \$345,498; write off of inventory of \$62,402 and a bad debt recovery of \$20,206.

The Company has recorded an income tax expense of \$99,077 for Fiscal 2019 compared to an income tax recovery of \$251,164 for Fiscal 2018.

*Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017*

For Fiscal 2018, the Company reported net income of \$194,453 (\$0.00 per share) against revenue of \$12,716,596 compared to a net loss of \$5,015,911 (\$0.11 per share) against revenue of \$6,062,778 for the year ended December 31, 2017. The Company’s gross profit percentage increased to 41.6% from 16.8% in 2017. The increase in gross profit percentage is mainly due to operating efficiency improvements. Also, in 2017 an inventory write-off of \$470,654 was recorded which depressed the margin. Excluding this write-off, the margin would have been 24.6% for 2017. Net income and comprehensive income for Fiscal 2018 was \$194,453 after deducting non-cash items. In accordance with IFRS, reported income includes items not involving cash. These include amortization of \$277,580, share-based expense (“**Black-Scholes**”) of \$403,548 and net income tax recovery of \$251,164.

Factors in the reported income for Fiscal 2018 include expenses of \$1,667,646 (Fiscal 2017 - \$1,701,723) related to office and administration costs mainly in Bonham, Texas; and on-going industrial product design and development costs of \$1,352,817 (Fiscal 2017 - \$1,572,714). The Company currently has 3 members in the engineering department. 2018 product design and development costs were significant due to the ongoing development of the Company’s Active Suspension Control System.

Other key costs include production infrastructure; human resource education; and marketing related expenses for products that have not yet seen sales results. For Fiscal 2018 salaries and benefits increased slightly to \$508,009 (Fiscal 2017 - \$477,104). The Company employs 7 administrative people in this area which remains consistent with the prior year. Executive management contract fees have increased to \$610,570 (Fiscal 2017 - \$544,014). In Fiscal 2018 a bonus was accrued of \$70,035 and in 2017 there was no executive bonus paid. The Company’s consulting fees have declined to \$196,823 (Fiscal 2017 - \$251,055). During Fiscal 2017 the Company retained two administrative support persons and one web-site/communications consultant. Transfer agent and filing fees which declined due to the Company not listing on any new exchanges during the year. Investor relations fees of \$84,000 remained the same in Fiscal 2018 and 2017.

Business growth expenses included marketing costs of \$266,152 (Fiscal 2017 - \$554,458) and related travel costs of \$159,800 (Fiscal 2017 - \$430,304). The Company’s marketing efforts continue in an attempt to keep the Company’s products at the forefront of the industry. The Company is taking a much more focused approach to the marketing function and has seen better results as well as reduced costs. For Fiscal 2018 the Company employed four full time marketing people which was one more than 2017. Compensation packages continued to be more heavily composed of incentive targets as opposed to higher base salaries.

Share-based expenses were incurred due to the granting of share purchase options during Fiscal 2018, Fiscal 2017 and Fiscal 2016, which vest over time. Share-based expenses for Fiscal 2018 were \$403,548 compared to \$469,187 during Fiscal 2017.

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 \$194,282 for Fiscal 2018 (Fiscal 2017 - \$370,495).

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 the Company’s 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 2018 were \$508,460 (Fiscal 2017 - \$352,388). Product liability insurance rose in 2018 due to higher revenue results.

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

The Company's primary source of revenue to date is from new rail tank car builders and retrofit/repair customers. Management expects that the Company's capital resources may grow and diminish in line with the historic up and down economic cycles of the railroad industry. As at the end of Fiscal 2019 there were no material commitments for capital expenditures.

The Company plans to generate the necessary capital resources to finance operations by way of the sales of the Company's products. In Fiscal 2018, 8,334 share purchase options were exercised at a price of US\$0.30/share. No share purchase options were exercised in 2019. 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 the Company's future financial obligations and the Company's 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 the Company may be unsuccessful in raising any additional capital needs that may arise; the Company 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 equity financings and through the exercise of options and warrants. Currently, the Company relies primarily on revenues 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, 2019 Compared to December 31, 2018*

At December 31, 2019 the Company had cash on deposit in the amount of \$4,418,236, accounts receivable of \$1,824,563, prepaid expenses of \$96,627 and inventory of \$3,394,192 compared to cash on deposit in the amount of \$1,246,244, accounts receivable of \$1,224,235, prepaid expenses of \$110,258 and inventory of \$3,668,401 at December 31, 2018.

The Company has accrued income tax payable of \$71,341 for the year ended December 31, 2019 compared to an income tax payable of \$466,739 at December 31, 2018.

The working capital position of the Company at December 31, 2019 was \$7,937,873 compared to \$4,469,882 at December 31, 2018. The majority of accounts receivable are collected within 30 days from invoicing shipments giving Kelso \$1,824,563 of additional cash flow plus \$4,418,236 of available cash to discharge accounts payable and accrued liabilities of \$1,795,745 on a timely basis subsequent to December 31, 2019. Income taxes payable are due mid 2020.

Net assets of the Company improved to \$11,845,275 at December 31, 2019 compared to \$8,165,734 at December 31, 2018. The Company had no interest-bearing long-term liabilities or debt at December 31, 2019.

### *December 31, 2018 Compared to December 31, 2017*

At December 31, 2018 the Company had cash and cash equivalents in the amount of \$1,246,244; accounts receivable of \$1,224,235; prepaid expenses of \$110,258 and inventory of \$3,668,401 compared to cash and cash equivalents in the amount of \$411,223; accounts receivable of \$653,445; prepaid expenses of \$183,966 and inventory of \$3,980,243 at December 31, 2017.

The working capital position of the Company at December 31, 2018 was \$4,469,882 compared to a working capital position of \$3,628,911 as at December 31, 2017.

Net assets of the Company were \$8,165,734 at December 31, 2018 compared to \$7,565,233 at December 31, 2017. At December 31, 2018, the Company had no interest-bearing long-term liabilities or debt.

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

A cornerstone of the Company’s ability to initiate business growth lies in the Company’s ability to create new commercial products and continue innovation of existing products. The Company’s research, development and engineering initiatives are dedicated to the creation of 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-no-road rugged terrain suspension technologies. The Company 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 last three years: \$1,129,007 in Fiscal 2019; \$1,352,817 during Fiscal 2018; and \$1,572,714 during Fiscal 2017. The majority of these expenditures have been incurred designing and developing the ASCS wilderness suspension technologies in 2019, 2018 and 2017.

**D. 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 the Company’s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resource that is material to investors.

**E. Tabular Disclosure of Contractual Obligations**

The Company does not have any contractual obligations as of December 31, 2019 relating to long-term debt obligations, purchase obligations or other long-term liabilities reflected on the Company’s latest statement of financial position as at December 31, 2019. The Company has lease obligations for warehouse space in Kelowna, British Columbia as well as for vehicles used in the development of prototypes. Under IFRS these leases are recorded on the Company’s statement of financial position.

**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 the Company’s directors, senior management, and certain significant employees:

<b>Name</b>	<b>Position(s) Held with Company</b>	<b>Principal Business Activities and Other Principal Directorships</b>
James R. Bond	Director President and CEO	President of Bondwest Enterprises Inc. Director of SIQ Mountain Industries Inc. (SIQ: TSXV).
Richard Lee	CFO	Self-employed businessman. CFO of the Company since April 8, 2010. CFO and Director of SIQ Mountain Industries Inc. (SIQ: TSXV) and CFO of Happy Creek Minerals Inc. (HPY:TSXV),
Peter Hughes	Director Compensation Committee Member	Self-employed businessman. President and CEO of SIQ Mountain Industries Inc. (SIQ: TSXV); Director of Yuntone Capital Corp. (YTC.H: TSXV), CEO and Director of Gourmet Ocean Products Inc. (GOP:TSXV) and Director of Navion Capital Inc. (NAVN.P: TSXV).
Tony Andrukaitis	Director Executive Vice President Business Development, COO	Independent Business Consultant.
Paul Cass	Director Audit Committee Member Compensation Committee Member	Self-Employed Businessman.

Name	Position(s) Held with Company	Principal Business Activities and Other Principal Directorships
Laura Roach	Director Compensation Committee Member Corporate Governance and Nominating Committee Member	Attorney and partner at the national law firm McCathern Law located in Frisco, Texas.
Jesse V. Crews	Director Audit Committee Member Corporate Governance and Nominating Committee Member	Chief Investment Officer of Trinity Industries Leasing Company.
Frank Busch <sup>(1)</sup>	Director Audit Committee Member Corporate Governance and Nominating Committee Member	Chief Executive Officer of NationFUND Access Capital Corporation

<sup>(1)</sup> On February 11, 2020 Mr. Phil Dyer resigned as a director of the Company and Mr. Frank Busch was appointed to the Board and a member of the Audit Committee in his place. Mr. Busch is an independent director.

James R. Bond (66 years) – President, CEO and Director

Mr. Bond has been a director and acted as 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. Mr. Bond currently serves as a Director on SIQ Mountain Industries Inc, a company listed on the TSXV;

Richard Lee (64 years) – CFO

Mr. Lee has been the Company’s CFO since April 8, 2010. Mr. Lee is a graduate of the University of British Columbia with a Bachelors’ 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. Mr. Lee serves as CFO and a Director of SIQ Mountain Industries Inc, a company listed on the TSXV; as well as CFO of Happy Creek Minerals Inc., a company listed on the TSXV. Mr. Lee was also a Director of Invictus MD Strategies Corp. from June 4, 2019 to February 25, 2020.

Peter Hughes (58 years) – Lead Director

Mr. Hughes has been a director of the Company since October 4, 2010 and is a member of the Company’s Compensation Committee and Corporate Governance & Nominating Committee. Mr. Hughes has 35 years’ business experience including senior-level executive and director positions in both private and public companies specializing in pharmaceuticals, alternative energy, mining, aquaculture and sports technology. Mr. Hughes is a graduate of the University of British Columbia with a Bachelors’ degree in Science, Canadian Securities Course and Director’s and Officer’s Course. Mr. Hughes currently serves as a President and CEO of SIQ Mountain Industries Inc., Director of Yuntone Capital Corp., CEO and Director of Gourmet Ocean Products Inc. (GOP:TSXV) and a Director of Navion Capital Inc. all of which are on the TSXV.

Tony Andrukaitis (66 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 holds the position of President and CEO of Kelso

Technologies (USA) Inc. since August 3, 2016 and President and CEO of Kel-Flo Industries Inc. (engineering industrial designs and distribution plans for patented OBM) since February 2, 2017. 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.

Paul Cass (63 years) – Director

Mr. Cass has been a director of the Company since 2016 and is a member of the Audit Committee. Mr. Cass was formerly COO of Whitewater West Industries, a privately held design/manufacturing firm specializing in waterpark and amusement park equipment installations around the world. Previously Mr. Cass was COO at Ballard Power Systems Ltd., a public company specializing in the development and manufacture of fuel cell technology for automotive and non-automotive markets. Mr. Cass is a registered Professional Engineer in British Columbia and he also holds an MBA from Simon Fraser University.

Laura Roach (48 years) - Director

Ms. Roach is partner at the national law firm McCathern Law located in Frisco, Texas, where she is a civil and family law attorney primarily focused on mediation, divorce and civil litigation. Ms. Roach is also an entrepreneur, founding and running a referral and marketing business. Ms. Roach has been recognized as one of D Magazine's Best Lawyers in Texas and Texas Monthly magazine's Super Lawyers every year since 2013. Ms. Roach has received the highest ranking in Legal and Ethical standards by Martindale Hubbell. Ms. Roach earned a Juris Doctor from St. Mary's University School of Law and a BSc from the University of Arizona.

Jesse V. Crews (67 years) – Director

Mr. Crews is the Chief Investment Officer of Trinity Industries Leasing Company, which he joined in 2011, which includes accountability for the leasing company's long-term portfolio investment strategy, wide-ranging capital market activities, as well as major transaction initiatives. From 2009 to 2011, he served as the Chief Operating Officer and Executive Vice President of Willis Lease Finance Corp. From 2004 to 2009, he served as a Managing Director for Fortress Investment Group. Previously, he served as the President and Chief Executive Officer of GATX Financial Corporation (formerly GATX Capital Corporation). Mr. Crews joined GATX in 1977 as a Financial Analyst and held a progression of positions through 2002, including Manager in Singapore, Regional Manager in New Orleans/Houston, head of New Business Development in their San Francisco main office, head of Corporate Finance, Chief Investment Officer, and culminated in his election as Chief Executive Officer in 1998.

Mr. Crews is a member "Emeritus" of the Board of Trustees for the Darden Graduate School of Business at the University of Virginia. He earned a Masters' in Business Administration from the University of Virginia and a Bachelor of Arts degree in Economics from Yale University.

Frank Busch (41 years) – Director

Mr. Busch's expertise is finance, business development and indigenous relations as Director of Community Engagement with the First Nations Finance Authority in Canada. Mr. Busch received his Bachelor of Arts from the University of Manitoba and has completed five specialized financial certificates from the Canadian Securities Institute and a post-graduate Certificate in Finance from Harvard University in preparation for entering the Masters of Liberal Arts in Extension Studies Field: Finance at Harvard. Mr. Busch is an expert in the field of Indigenous Engagement and Relations and has spoken publically, published articles and advised companies and organizations of all sizes on the subject. Mr. Busch was appointed to the Board of Directors on February 11, 2020.

Family Relationships

There are no family relationships between any of the Company's directors and senior management listed above.

**B. Compensation**

During Fiscal 2019, the Company’s directors and members of the Company’s administrative, supervisory or management bodies received compensation for services, as follows:

Name and Principal Position	Fiscal Year Ended December 31, 2019			
	Salary (\$)	Option-based Awards (\$)	All other compensation (\$)	Total compensation (\$)
James R. Bond <i>Director, President and CEO</i>	\$180,000	\$40,554	N/A	\$220,554
Richard Lee <i>CFO</i>	\$180,000	\$40,554	N/A	\$220,554
Peter Hughes <i>Director</i>	N/A	\$20,277	\$39,750	\$60,027
Tony Andrukaitis <i>Director, Executive Vice President Business Development and COO</i>	\$180,000	\$40,554	N/A	\$220,554
Phil Dyer <i>Director</i>	N/A	\$27,037	\$23,000	\$50,037
Paul Cass <i>Director</i>	N/A	\$27,037	\$18,000	\$45,037
Laura Roach <i>Director</i>	N/A	\$27,037	\$18,000	\$45,037
Jesse V. Crews <i>Director</i>	N/A	\$32,851	\$21,750	\$54,601

Management Agreements

On January 1, 2017 the Company and Bondwest entered into a Professional Services Agreement which expires on December 31, 2020 (the “**CEO PSA**”). Under the terms of the CEO PSA Bondwest will receive a base fee of US\$15,000 per month for the fiscal year 2017. The base fee for fiscal 2020 will increase to US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the CEO PSA sales reach US\$50,000,000 the base fee will increase to US\$24,000 per month. Bondwest is also eligible to receive an annual bonus, capped at 1.5 times the base fee. The cap would increase to 3x the base fee upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and income taxes. The CEO PSA also includes a severance clause of 24 months base fee for termination or change of control.

On January 1, 2017 the Company and Kitchener Holdings Corp. (“**Kitchener**”) a private company 100% owned by Mr. Lee entered into a Professional Services Agreement which expires on December 31, 2020 (the “**CFO PSA**”). Under the terms of the CFO PSA Kitchener will receive a base fee of US\$15,000 per month for the fiscal year 2017. The base fee for fiscal 2020 will increase to US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the CFO PSA sales reach US\$50,000,000 the base fee will increase to US\$24,000 per month. Kitchener is also eligible to receive an annual bonus, capped at 1.5 times the base fee. The cap would increase to 3x the base fee upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and income taxes. The CFO PSA also includes a severance clause of 24 months base salary for termination or change of control.

On January 1, 2017 the Company and Mr. Andrukaitis entered into a Professional Services Agreement which expires on December 31, 2020 (the “**COO PSA**”). Under the terms of the COO PSA Mr. Andrukaitis will receive a base salary of US\$15,000 per month for the fiscal year 2017. The base salary for fiscal 2020 will increase to

US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the COO PSA sales reach US\$50,000,000 the base salary will increase to US\$24,000 per month. Mr. Andrukaitis is also eligible to receive an annual bonus, capped at 1.5 times the base salary. The cap would increase to 3x the base salary upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and income taxes. The COO PSA also includes a severance clause of 24 months base salary for termination or change of control.

### 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 Optionee 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, 2019:

Name	Option Based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options (US\$) <sup>(1)</sup>
James R. Bond	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	42,000
	100,000	0.50	August 20, 2023	22,000
	100,000	0.78	August 19, 2024	0
Richard Lee	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	42,000
	100,000	0.50	August 20, 2023	22,000
	100,000	0.78	August 19, 2024	0
Peter Hughes	50,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	21,000
	50,000	0.50	August 23, 2023	11,000
	50,000	0.78	August 19, 2024	0
Tony Andrukaitis	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	42,000
	100,000	0.50	August 23, 2023	22,000
	100,000	0.78	August 19, 2024	0
Phil Dyer	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	21,000
	50,000	0.50	August 23, 2023	11,000
	50,000	0.78	August 19, 2024	0
Paul Cass	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	21,000
	50,000	0.50	August 23, 2023	11,000
	50,000	0.78	August 19, 2024	0
Laura Roach	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	21,000
	50,000	0.50	August 23, 2023	11,000
	50,000	0.78	August 19, 2024	0
Jesse V. Crews	200,000	0.57	April 17, 2023	30,000
	50,000	0.50	August 23, 2023	11,000
	50,000	0.78	August 19, 2024	0

<sup>(1)</sup> Value is calculated based on the difference between the market value of the securities underlying the options as at December 31, 2019 (being US\$0.72) and the exercise price of the option.

Termination and Change of Control Benefits

Except as disclosed above with respect to James R. Bond, Richard Lee and Tony Andrukaitis, the Company has no plans or arrangements in respect of remuneration received or that may be received by the Company's 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

The Company has not set aside or accrued any amounts to provide pension, retirement or similar benefit for the Company's directors or senior management during Fiscal 2019.

### **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 the Company's senior management is appointed to serve at the discretion of the Company's Board, subject to the terms of the personal service 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 the Company's 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

During the fiscal year ended December 31, 2019, the members of the audit committee were Phil Dyer (Chairman), Paul Cass and Jesse Crews. On February 11, 2020 Mr. Dyer resigned from the Board of Directors of the Company and was replaced by Mr. Frank Busch as a director on the audit committee and Mr. Paul Cass was named Chairman of the audit committee. As defined in National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrator, Messrs. Dyer, Cass and Crews were independent and the current audit committee consisting of Paul Cass, Jesse Crews and Frank Busch 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 the Company's financial statements. The Company has adopted a charter for the Company's audit committee. The full text of the Charter of the Audit Committee is available on the Company's website at [www.kelsotech.com](http://www.kelsotech.com). 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. The Company's 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:

- to recommend to the Board compensation policies and guidelines for the Company; and
- 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 which can be viewed on the Company's website at [www.kelsotech.com](http://www.kelsotech.com). 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 American rules. The members of the Compensation Committee are Messrs. Hughes (Chairman) and Cass and Ms. Roach.

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 the Company's 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 Company's corporate governance system is effective in the discharge of the Company's obligations to the Company'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:

- Develop and monitor the Company's overall approach to corporate governance issues and, subject to approval by the Board, implement and administer this process.
- 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.
- 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.
- 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.
- 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.
- Make recommendation to the Board regarding changes or revisions to the Board's Corporate Governance Guidelines;
- Evaluate and make recommendations to the Board concerning the appointment of directors to the committees and the selection of Board committee chairs;
- Annually evaluate and report to the Board on the performance and effectiveness of the Board and its committees;
- 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;
- Evaluate and lead the Board's annual review of the Chief Executive Officer's performance; and
- Annually review and evaluate its performance.

The Company has adopted a formal written mandate for the Corporate Governance and Nominating Committee, which can be viewed on the Company's website at [www.kelsotech.com](http://www.kelsotech.com). 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 NP58-201 "Corporate Governance Guidelines" and the applicable NYSE American rules.

Each member will have skills and/or experience which are relevant to the mandate of the Committee. During the financial year ended December 31, 2019, the members of the Corporate Governance and Nominating Committee were Messrs. Dyer, Crews (Chairman) and Ms. Roach. On February 11, 2020 Mr. Dyer resigned from the Board of Directors of the Company and was replaced by Mr. Frank Busch as a director on the Corporate Governance and Nominating Committee.

The Board appoints the members of the Corporate Governance and Nominating Committee for the ensuing year at the Company's organizational meeting held in conjunction with each annual general meeting of the Shareholders of the Company. 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 Company and to such information respecting the Company and may engage independent counsel and advisors at the expense of the Company, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

#### D. Employees

As at December 31, 2019, the Company had 45 employees, including employees of the Company's subsidiaries. The majority of employees work at the Company's production facilities in Bonham, Texas. Canadian personnel work in Kelowna, British Columbia. There has been no significant change in the number of employees since December 31, 2018. At the date of this filing, the Company's employees are not unionized and all employees are full-time. At December 31, 2018, the Company had 40 employees, including employees of the Company's subsidiaries.

#### E. Share Ownership

As of December 31, 2019, the Company's 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 <sup>(1)</sup>	
James R. Bond <i>Director, President and CEO</i>	1,368,300 <sup>(2)</sup>	2.90	400,000
Peter Hughes <i>Director</i>	16,000	0.003	200,000
Tony Andrukaitis <i>Director, Executive Vice President Business Development and COO</i>	264,000	0.56	400,000
Phil Dyer <i>Director</i>	10,000	0.021	350,000
Paul Cass <i>Director</i>	69,000	0.146	350,000
Laura Roach <i>Director</i>	6,390	0.013	350,000
Jesse V. Crews <i>Director</i>	107,097	0.227	300,000
Richard Lee <i>CFO</i>	144,500	0.306	400,000

<sup>(1)</sup> Based on 47,170,086 common shares issued and outstanding as at December 31, 2019.

<sup>(2)</sup> Mr. Bond holds 552,500 common shares directly; 660,800 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.

The voting rights attached to the common shares owned by the Company's 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 the Company's 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 the Company's major shareholders do not differ from the voting rights of holders of the Company's common shares who are not the Company's major shareholders.

As at December 31, 2019, the registrar and transfer agent for the Company reported that there were 47,170,086 common shares of the Company issued and outstanding. Of these, 43,140,454 were registered to Canadian residents (10 recorded shareholders), 4,018,204 were registered to residents of the United States (19 recorded shareholders) and 11,428 were registered to residents of other foreign countries (1 recorded shareholder).

To the best of the Company's 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 the Company's major shareholders.

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

***B. Related Party Transactions***

For Fiscal 2019, management fees for the Company were \$540,692 (Fiscal 2018 - \$540,535; Fiscal 2017 - \$544,014). At December 31, 2019, the amount due to related parties (unsecured and have no interest) was \$537,644 (Fiscal 2018 - \$19,500; Fiscal 2017 - \$45,262). Management bonuses of \$496,894 were earned in Fiscal 2019 (Fiscal 2018 - \$70,035 and Fiscal 2017 - Nil); \$40,750 related to accrued Directors fees (Fiscal 2018 - \$19,500; Fiscal 2017 - \$16,500) and there were no amounts due for reimbursement of expenses to a director of the Company. Expense reimbursements are due on demand. Related party transactions during Fiscal 2019, Fiscal 2018 and Fiscal 2017 were in the normal course of operations and were measured at their fair value.

Share-based expenses (calculated using the Black-Scholes option pricing model) for Fiscal 2019 were \$255,902; \$262,261 in Fiscal 2018 and \$264,172 for Fiscal 2017.

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 the Company's 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 the Company has 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 the Company's 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***

The Company's financial statements are stated in United States dollars and are prepared in accordance with IFRS, as issued by the IASB.

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, 2019 including: report of the independent registered public accountant, Smythe LLP, Chartered Professional Accountants, comprising the consolidated statements of financial position as at December 31, 2019 and 2018, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2019, 2018 and 2017.

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 the Company’s affiliates is either a party adverse to the Company or the Company’s subsidiaries or has a material interest adverse to the Company or the Company’s subsidiaries.

Policy on Dividend Distributions

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

The Company is not aware of any significant change that has occurred since December 31, 2019 that have 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 the Company’s common shares for the five most recent full financial years on the TSX and NYSE American were as follows:

Year Ended	TSX <sup>(1)</sup> (Canadian dollars, \$)		NYSE American <sup>(2)</sup> (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2019	2.19	0.55	1.66	0.41
December 31, 2018	1.25	0.46	0.96	0.3591
December 31, 2017	1.40	0.315	1.08	0.27
December 31, 2016	1.90	0.96	1.44	0.70

Year Ended	TSX <sup>(1)</sup> (Canadian dollars, \$)		NYSE American <sup>(2)</sup> (U.S. dollars, \$)	
December 31, 2015	5.70	1.30	5.11	0.79

<sup>(1)</sup> 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.

<sup>(2)</sup> The common shares of the Company were listed for trading on the NYSE American on October 14, 2014 prior to which they traded on the OTCQX International under the symbol "KEOSF".

*Full Financial Quarters (two most recent full financial years)*

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

Quarter Ended	TSX (Canadian dollars, \$)		NYSE American (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2019	1.12	0.91	0.90	0.69
September 30, 2019	2.06	0.82	1.58	0.61
June 30, 2019	2.19	0.90	1.66	0.69
March 31, 2019	1.19	0.55	0.90	0.41
December 31, 2018	1.11	0.46	0.85	0.3591
September 30, 2018	1.25	0.52	0.96	0.3869
June 30, 2018	0.86	0.47	0.655	0.37
March 31, 2018	1.05	0.59	0.87	0.4801

*Most Recent 6 Months*

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

Month Ended	TSX (Canadian dollars, \$)		NYSE American (U.S. dollars, \$)	
	High	Low	High	Low
February 28, 2020	1.32	0.90	1.00	0.70
January 31, 2020	1.00	0.85	0.78	0.65
December 31, 2019	1.07	0.91	0.83	0.69
November 30, 2019	1.12	0.97	0.88	0.74
October 31, 2019	1.20	0.93	0.90	0.70
September 30, 2019	1.15	0.91	0.92	0.68

*Transfers of Common Shares*

The Company's common shares are in registered form and the transfer of the Company's common shares is managed by the Company's 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, 8<sup>th</sup> 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 American 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 the Company’s Registration Statement on Form 20-F 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 patent abstract describes the PRV 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 CAD\$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 10% rolling stock option plan which was last approved by the shareholders of the Company on June 8, 2017. A copy of the Option Plan is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States.
4. On November 10, 2016 the Company entered an exclusive Technology Development Agreement (the "**GJ Agreement**") with G & J Technologies Inc. ("**G & J**"), a private company incorporated in the Province of British Columbia. The GJ Agreement focuses on the development, commercialization and production of proprietary products used in heavy-duty, high-performance ETVS. The GJ Agreement gives the Company the worldwide, perpetual, exclusive rights to develop with G & J a new generation of patented technologies that enhance the capabilities of ETVS. The GJ Agreement gives the Company the right to patent, market, manufacture, distribute and license all specialized technologies covered under the GJ Agreement. The Company plans to utilize these technologies to create ETVS components that can generate multi-million dollar revenue streams. In consideration for the Agreement the Company agreed to pay G & J a fee of US\$100,000 and 1,000,000 common shares of the Company, which shares are scheduled to be released over four key milestones under the Agreement. In addition, Kelso pays US\$10,000 per month to G & J and a 2.5% royalty on a pre-approved sales formula. During Fiscal 2018, a total of 250,000 common shares were issued to G & J at a deemed price of C\$1.00/share (250,000 shares were issued to G & J during each of Fiscal 2017 and 2016 at a deemed price of \$1.00/share). A total of 250,000 common shares remain to be issued pursuant to the Agreement.
5. On January 1, 2017 the Company entered into Professional Services Agreement with Bondwest Enterprises Inc. ("**Bondwest**"), a private company 100% owned by James R. Bond which expires on December 31, 2020 (the "**CEO PSA**") with regards to Mr. Bond's engagement as the President and Chief Executive Officer of the Company. Under the terms of the CEO PSA Bondwest will receive a base fee of US\$15,000 per month for the fiscal year 2017. The base fee for fiscal 2020 will increase to US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the CEO PSA sales reach US\$50,000,000 the base fee will increase to US\$24,000 per month. Bondwest is also eligible to receive an annual bonus, capped at 1.5 times the base fee. The cap would increase to 3x the base fee upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and income taxes. The CEO PSA also includes a severance clause of 24 months base fee for termination or change of control.
6. On January 1, 2017 the Company entered into a Professional Services Agreement with Kitchener Holdings Corp. ("**Kitchener**") a private company 100% owned by Richard Lee which expires on December 31, 2020 (the "**CFO PSA**") with regards to Mr. Lee's employment as the Chief Financial Officer of the Company. Under the terms of the CFO PSA Kitchener will receive a base fee of US\$15,000 per month for the fiscal year 2017. The base fee for fiscal 2020 will increase to US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the CFO PSA sales reach US\$50,000,000 the base fee will increase to US\$24,000 per month. Kitchener is also eligible to receive an annual bonus, capped at 1.5 times the base fee. The cap would increase to 3x the base fee upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and income taxes. The CFO PSA also includes a severance clause of 24 months base salary for termination or change of control.
7. On January 1, 2017 the Company and Mr. Andrukaitis entered into a Professional Services Agreement which expires on December 31, 2020 (the "**COO PSA**") with regards to Mr. Andrukaitis's employment as the Chief Operating Officer of the Company. Under the terms of the COO PSA Mr. Andrukaitis will receive a base salary of US\$15,000 per month for the fiscal year 2017. The base salary for fiscal 2020 will increase to US\$24,000 per month upon achieving sales of US\$30,000,000. If at any time during the term of the COO PSA sales reach US\$50,000,000 the base salary will increase to US\$24,000 per month. Mr. Andrukaitis is also eligible to receive an annual bonus, capped at 1.5 times the base salary. The cap would increase to 3x the base salary upon achieving top line sales of US\$50,000,000. The performance bonus will be calculated at one-third of 10% of the adjusted income which will be based on the audited annual income adjusted for non-cash items (e.g. stock-based compensation, deferred taxes, unrealized foreign exchange and amortization) and

income taxes. The COO PSA also includes a severance clause of 24 months base salary for termination or change of control.

#### *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 the Company's 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*

The Company considers that the following general summary fairly describes the principal Canadian federal income tax consequences applicable to a holder of the Company's 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 the Company's 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 the Company's common shares, and no opinion or representation with respect to the tax consequences to any holder or prospective holder of the Company's common shares is made, accordingly, holders and prospective holders of the Company's common shares should consult their own tax advisors with respect to the income tax consequences of purchasing, owning and disposing of the Company's common shares in their particular circumstances.**

##### *Dividends*

Dividends paid on the Company's 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. The Company's 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 the Company's 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 the Company's 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 the Company's common shares.**

#### U.S. Holders

As used herein, a "**U.S. Holder**" includes a holder of less than 10% of the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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](http://www.sedar.com), in Canada, on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States and on the Company's website at [www.kelsotech.com](http://www.kelsotech.com). Copies of such documents may also be viewed by appointment during normal business hours at the Company's 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 the Company's five wholly-owned subsidiaries Kelso Technologies (USA) Inc. (incorporated on August 3, 2005 in the State of Nevada), Kel-Flo Industries Inc. (incorporated on June 20, 2012 in the State of Nevada), KIQ Industries Inc. (incorporated on October 7, 2014 in the State of Nevada) and KIQ X Industries Inc. (incorporated on December 12, 2017 in the Province of British Columbia, Canada). KXI Wildertec Industries Inc. (incorporated on February 17, 2020 in the Province of British Columbia, Canada). Kelso Technologies Inc. owns 100% of the voting securities of each of the Company's subsidiaries and none of the subsidiaries has a class of restricted securities

## 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 the Company's financial instruments as follows: cash is classified as a financial asset at FVTPL, accounts receivable and due to related parties and accounts payable and accrued liabilities are classified as financial instruments 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 the Company's use of financial instruments:

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

### (a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is placed with a major Canadian financial institution and the Company's concentration of credit risk for cash and maximum exposure thereto is \$4,418,236 at December 31, 2019 (December 31, 2018 - \$1,246,244).

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 is \$1,824,563 at December 31, 2019 (December 31, 2018 - \$1,224,235).

The Company's concentration of credit risk for accounts receivable at December 31, 2019 with respect to Customer A is \$476,341 (2018 - \$271,564) and Customer B is \$172,841 (2018 - \$161,556). The Company has an allowance for doubtful accounts of \$Nil at December 31, 2019 (2018 - \$27,653).

To reduce the credit risk of accounts receivable, the Company regularly reviews the collectability of accounts receivable to ensure there is no indication that these amounts will not be fully recovered.

### (b) Liquidity risk

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

At December 31, 2019, the Company had cash in the amount of \$4,418,236 (December 31, 2018 - \$1,246,244) and accounts receivable of \$1,824,563 (December 31, 2018 - \$1,224,235) to settle accounts payable and accrued liabilities of \$1,638,020 (December 31, 2018 - \$1,312,517) with the following due dates; trade accounts payable of \$1,100,376 (December 31, 2018 - \$1,222,982) are due within three months; and due to related party balances of \$537,644 (December 31, 2018 - \$89,535) are payable not later than May 15<sup>th</sup>, of the following year.

### (c) Market risk

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

#### (i) Interest rate risk

Interest rate risk is the risk that the 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.

(ii) Currency risk

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

At December 31, 2019 and December 31, 2018, the Company’s net exposure to foreign currency risk was as follows (in US):

	December 31, 2019	December 31, 2018
Net (liabilities)	\$ (55,554)	\$ (147,910)

Based on the above, assuming all other variables remain constant, a 14% weakening or strengthening of the USD against the CAD would result in approximately \$7,776 (December 31, 2018 - \$20,700) foreign exchange loss or gain in the consolidated statements of operations.

(iii) 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.**

At the Company’s 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, shareholders 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**

As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 (the “**Exchange Act**”), the Company’s 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, the Company’s 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.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company's internal control over financial reporting as of December 31, 2019, the end of the Company's 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 the Company's overall control environment.

Based on the Company's assessment, management has concluded that the Company's 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 IFRS as issued by the 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 on October 9, 2014 in the United States.

#### **Changes in Internal Control over Financial Reporting**

The Company's management has evaluated, with the participation of the Company's chief executive officer and chief financial officer, whether any changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal year have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on the evaluation the Company conducted, the Company's 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**

The Company's board of directors has determined that Phil Dyer qualified 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 American Company Guide.

**B. Code of Ethical Conduct**

The Company adopted a Code of Business Conduct and Ethics on August 1, 2014, which was amended by the Board of Directors on March 16, 2020 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](http://www.sedar.com) in Canada, on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States and on the Company's website at [www.kelsotech.com](http://www.kelsotech.com).

**C. Principal Accountant Fees and Services**

*Audit Fees.* This category includes the fees for the audit of the Company's 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.

The Company's independent registered public accountants provided audit and other services during the fiscal year ended December 31, 2019 and the fiscal year ended December 31, 2018:

	<b>December 31, 2019 (CAD\$)</b>	<b>December 31, 2018 (CAD\$)</b>
Audit Fees	90,000	85,000
Audit-Related Fees	15,500	5,000
Tax Fees	-	6,500
All Other Fees	N/A	N/A
<b>Total Fees</b>	<b>105,500</b>	<b>96,500</b>

**Pre-Approval Policies and Procedures**

The Company's audit committee pre-approves all services provided by the Company's 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 LLP, 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 LLP, 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 American. Section 110 of the NYSE American Company Guide permits the NYSE American to consider the laws, customs and practices of foreign issuers, and to grant exemptions from NYSE American 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 American standards is as follows:

Shareholder Meeting Quorum Requirement: NYSE American recommends a quorum of at least 33 1/3%. The Company’s quorum requirement is set forth in the Company’s 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.

Proxy Delivery Requirement: NYSE American 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 including the report of the independent registered public accounting firm issued by Smythe LLP, Chartered Professional Accountants, comprising the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2019, 2018 and 2017.

**Item 18. Financial Statements**

See “Item 17. Financial Statements”.

Exhibits Exhibit No.	Description
(3)	Articles of Incorporation and Bylaws

Exhibits Exhibit No.	Description
3.01	<a href="#">Certificate of Incorporation<sup>(1)</sup></a>
3.01a	<a href="#">Certificate of Name Change<sup>(1)</sup></a>
3.01b	<a href="#">Notice of Articles<sup>(1)</sup></a>
3.01c	<a href="#">Articles<sup>(1)</sup></a>
<b>(4)</b>	<b>Securityholder Rights</b>
4.01	<a href="#">Shareholders Rights Plan dated February 3, 2011<sup>(1)</sup></a>
<b>(10)</b>	<b>Material Contracts</b>
10.01	<a href="#">Professional Services Agreement with Bondwest Enterprises Inc. dated January 1, 2017<sup>(2)</sup></a>
10.02	<a href="#">Professional Services Agreement with Kitchener Holdings Corp. dated January 1, 2017<sup>(2)</sup></a>
10.03	<a href="#">Professional Services Agreement with Anthony Andrukaitis dated January 1, 2017<sup>(2)</sup></a>
10.04	<a href="#">Stock Option Plan<sup>(1)</sup></a>
10.05	<a href="#">Agreement with Barry LaCroix for Patent No. US 7,104,722 B2 dated May 26, 2010<sup>(1)</sup></a>
10.06	<a href="#">Notice of Recordation of Assignment Document for US Patent No. 7104722<sup>(1)</sup></a>
10.07	<a href="#">Notice of Recordation of Assignment Document for US Patent No. 5855225<sup>(1)</sup></a>
10.08	<a href="#">Technology Development Agreement with G &amp; J Technologies Inc.<sup>(3)</sup></a>
11*	<a href="#">Code of Business Conduct and Ethics dated March 16, 2020</a>
12.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1*	<a href="#">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</a>
13.2*	<a href="#">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</a>
<b>(21)</b>	<b>Subsidiaries</b>
21.01*	<a href="#">List of Subsidiaries</a>
<b>(99)</b>	<b>Additional Exhibits</b>
99.3	<a href="#">Audited annual financial statements for the year ended December 31, 2015<sup>(4)</sup></a>
99.4	<a href="#">Audited annual financial statements for the year ended December 31, 2016<sup>(5)</sup></a>
99.5	<a href="#">Audited annual financial statements for the year ended December 31, 2017<sup>(6)</sup></a>
99.6	<a href="#">Audited annual financial statements for the year ended December 31, 2018<sup>(7)</sup></a>
99.7	<a href="#">Audited annual financial statements for the year ended December 31, 2019<sup>(8)</sup></a>

\*Filed herewith

- <sup>(1)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed on August 29, 2013.
- <sup>(2)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed on April 3, 2017.
- <sup>(3)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed November 21, 2016.
- <sup>(4)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 30, 2016.
- <sup>(5)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 30, 2017.
- <sup>(6)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed April 2, 2018.
- <sup>(7)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed April 1, 2019.
- <sup>(8)</sup> Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 17, 2020.

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

Date: April 6, 2020

By: /s/ Richard Lee  
Richard Lee  
Chief Financial Officer  
(Principal Financial Officer  
and Principal Accounting Officer)

Date: April 6, 2020