

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, 2022

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, Canada, V4A8J1
(Address of principal executive offices)

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

Title of Class	Trading Symbols	Name of each exchange on which registered
Common Shares Without Par Value	KIQ	NYSE American

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

Not Applicable
(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.

54,320,086 common shares without par value outstanding on December 31, 2022.
There were no Class A non-cumulative preference shares outstanding on December 31, 2022.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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). YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

†The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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.

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FORWARD-LOOKING STATEMENTS

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

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

In this annual report, unless otherwise stated, all dollar amounts are expressed in United States dollars (“\$”). The financial statements and summaries of financial information contained in this annual report are also reported in United States dollars unless otherwise stated. All such financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), unless expressly stated otherwise.

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

As used in this annual report, Company means Kelso Technologies Inc. (“**Kelso**”) and the Company’s wholly-owned subsidiaries Kelso Technologies (U.S.A.) Inc., KIQ Industries Inc., Kel-Flo Industries Inc. (formerly Kelso Innovative Solutions Inc.), KIQ X Industries Inc. and KXI™ Wildertec™ Industries Inc. (collectively the “**Company**”). Information on the Company’s website www.kelsotech.com is not incorporated by reference into this annual report.

COVID-19 IMPACT UPDATE ON OPERATIONS

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. Throughout fiscal 2022, the Company continued operations at its valve assembly facility in Bonham, Texas, while being mindful of the potential impacts of COVID-19.

The Company continues to be committed to the health and safety of its employees, business partners and communities where we operate. The Company continues to apply 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.

Although there can be no assurance against a severe downturn in the Company’s valve business given the resulting impact of COVID-19, the Company intends to fulfill its responsibility to continue operations to allow critical rail transportation to operate resiliently during 2023.

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</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 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 COO, Mr. Andrukaitis is responsible for the daily operations of the Company’s plant in Bonham, Texas and continues to take an active management role in pursuing growth of business opportunities, including mergers and acquisitions.
Edward Paul (“Paul”) Cass <i>Lead Director and Audit Committee Member</i>	As an independent director, Mr. Cass supervises the Company’s senior management and helps to ensure compliance with the Company’s corporate governance policies and standards.
Laura Roach <i>Director and Audit Committee Member</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</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 <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.
Amanda Smith <i>Vice President Operations</i>	As Vice President Operations, Ms. Smith manages the daily operations of the Company’s plant in Bonham, Texas and assists in all facets of the daily business including sales, marketing, engineering and inventory control.
Chris Stewart <i>President of KIQ X Industries Inc.</i>	As President of the Company’s wholly owned subsidiary, KIQ X Industries Inc. Mr. Stewart is responsible for all aspects of the KXI Suspension System project.

The business address for the Company is 13966 18B Avenue, Surrey, British Columbia, Canada V4A8J1.

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 V6C2B3. 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, has advised that it is independent with respect

to the Company in accordance with the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia. 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, 2022, 2021 and 2020 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 24 below.

Selected Financial Data

Statements of Income (Loss) Data	Year ended December 31, 2022 (audited) (\$)	Year ended December 31, 2021 (audited) (\$)	Year ended December 31, 2020 (audited) (\$)
Revenues	10,931,188	7,425,707	11,149,130
Gross Profit	4,908,996	3,196,492	4,792,678
Net Income/(Loss) and Comprehensive Income/(Loss)	(1,355,417)	(2,758,567)	(1,307,890)
Basic and Diluted Earning/(Loss) per Share	(0.02)	(0.05)	(0.03)
Statement of Financial Position Data	Year ended December 31, 2022 (audited) (\$)	As at December 31, 2021 (audited) (\$)	As at December 31, 2020 (audited) (\$)
Assets	12,147,143	13,728,510	12,016,515
Current Liabilities	1,330,821	1,210,356	958,086
Shareholders' Equity	10,781,672	12,055,113	10,960,923
Capital Stock	27,123,039	27,123,039	23,366,542
(Deficit)	(21,181,450)	(19,826,033)	(17,067,466)
Outstanding Common Shares	54,320,086	54,320,086	47,170,086

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

"Covid-19"

On March 11, 2020, the World Health Organization declared the ("COVID-19") outbreak a pandemic creating an unprecedented global health and economic crisis. COVID-19's impact on global markets was significant throughout 2021 and continued to impact year-ended 2022 operations. The success of immunization programs by some world governments reduced many risks and allowed for some improvement in economic activity during Fiscal 2022.

The Company will continue to closely monitor the potential impact of the COVID-19 on the Company's business. Should the duration, spread or intensity of the COVID-19 pandemic deteriorate in 2023, there could be a potentially material and negative impact on the Company's operating plans, the Company's liquidity and cash flows, and the valuation of the Company's long-lived assets, potential future decreases in revenue from the sale of the Company's products and the profitability of the Company's ongoing operations.

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 could fail."

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

The Company has obtained patents for the Company's external constant force spring pressure relief valves and a one-bolt manway system, vacuum relief valve and bottom outlet valve. 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 Company's 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 the Company's products."

The Association of American Railroads ("AAR") has specific adoption criteria that must be met before the Company's products can be utilized by customers in the railroad industry. The Company has been successful in obtaining AAR approvals for 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 approval. In addition, certain customers may have specific adoption criteria beyond what is required by the AAR, and there is no guarantee that the Company will be able to cater to these specific adoption criteria. The Company's failure to meet AAR and customer adoption criteria could have a material negative impact on the Company's ability to obtain purchase orders and generate revenue.

The Company's KXI Suspension System must meet and fully comply with the rules and regulations set forth by the Canadian Motor Vehicle Safety Standards and the Federal Motor Vehicle Safety Standards in the United States. Failure to meet these requirements would have a material negative impact on the Company's ability to create a compliant saleable product. The Company could not obtain purchase orders and generate meaningful revenues should this occur.

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

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

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

Although the Company had a positive working capital in the amount of \$7,000,568 as at December 31, 2022, the Company can, from time to time, face a working capital deficit. To maintain the Company's activities, the Company may require access to additional capital through the sale of securities or obtaining debt financing. There can be no assurance that the Company will be successful in obtaining such additional financing and failure to do so could result in the inability of the Company to develop new products; meet production schedules; execute delivery orders; and continue the Company's operations.

Given the unpredictable COVID-19 economic circumstances, Management carefully assessed the Company's future capital needs at year end. The decline of the Company's revenues in 2020 compromised the Company's available capital reserves to fund the Company's 2021 business affairs. It was determined that the Company should access new equity capital to ensure that Kelso has adequate working capital to service the Company's 2021 and 2022 needs. In March 2021, the Company completed a private placement whereby 7,000,000 units were issued at a price of CAD \$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD \$1.15 on or before 4:00 p.m. (Vancouver time) on March 4, 2022, and CAD \$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length, and the transaction did not materially affect control of the Company. Capital resources are now expected to protect the Company's ability to conduct ongoing business operations as planned for the foreseeable future.

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

There is no assurance that the Company will be able to successfully complete the Company's business development plans or operate profitably over the short or long-term. 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 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 the Company's revenue and production targets. This may have a material negative impact on the Company, particularly if the Company has incurred significant expenses to cater to increased market demand and such market demand does not materialize.

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

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

"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 OEM customers."

Although Management is optimistic about the Company's future as a railway equipment supplier, the Company is dependent upon three major customers that comprise the railroad tank car manufacturers for a significant portion of the Company's revenue. Although customers have displayed a pattern of consistent product orders over the past 24 months and timely payment of accounts owing, there is no guarantee that sales to these customers will continue at current levels or that these customers will continue to satisfy their payment obligations to the Company in a timely manner. The Company does not have any formal agreements for long-term, large-scale purchase orders with these customers and only sells to them when purchase orders are received. The Company expects that this limited number of customers will continue to represent a substantial portion of the Company's sales for the foreseeable future. The loss of any of these customers could have a material negative impact upon the Company and the Company's results of operations.

"Current products may not perform as well as expected."

There is a risk that the Company's products may not perform as well as 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 multiple suppliers in the United States and Canada for each of the component parts and raw materials required to assemble the Company's finished products. There is a potential risk that, from time to time, the Company could 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 business development plans of the Company, the Company's revenues and continued operations.

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

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

and expand the Company's customer base, and the Company's ability to generate revenue at current and projected levels.

"The Company's product development efforts may not result in new qualified commercial products."

The Company's ambition to design research and develop new products for the railroad industry and outback terrain vehicle suspension market and to successfully develop new markets for the Company's products in other industries, such as the trucking industry, may not result in commercially accepted products or applications. This may have a negative impact on the Company as the Company's current products may cease to be best-available technology and the Company may not have a replacement or alternative product offering. The Company's investment in new product research and 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."

During 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 the Company's customer base and revenues from product sales, there is a risk that the Company's insurance coverage may not be sufficient to cover future products claims.

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

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

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

The future success of the Company heavily depends upon the continued services of the Company's senior executives and other key employees. In particular, the Company relies on the expertise and experience of the Company's Chief Executive Officer, its Chief Financial Officer and its Chief Operating Officer. The Company also relies on the expertise of senior executives of certain of its subsidiaries; in particular, the President of KIQ X Industries Inc. These individuals are under contractual obligations to the Company expiring on June 30, 2023; 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.

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 900 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The Company’s corporate head office is located at 13966 18B Avenue, Surrey, British Columbia V4A8J1. The Company’s head office telephone number is (604) 590-1525.

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 (each, a “**Common Share**”) for seven old Common Shares. This consolidation was approved by a special resolution of the shareholders of the Company passed February 5, 2010. At 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**” or the “**Exchange**”) 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. (“**KTI**”), Kel-Flo Industries Inc., (“**Kel-Flo**”); KIQ Industries Inc. (“**KIQ**”); KIQ X Industries Inc. (“**KIQX**”) and KXI™ Wildertec™ Industries Inc. (“**KXI**”). 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. KTI was incorporated on August 3, 2005, in the State of Nevada for potential use for operations in the United States. KIQ 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 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. KIQX 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.

General Development of the Business

General

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

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 valves, top ball valves, vacuum relief valves 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 unaudited revenues over the last eight quarters were as follows: \$2,389,477 for the quarter ended December 31, 2022; \$2,708,364 for the quarter ended September 30, 2022; \$2,869,496 for the quarter ended June 30, 2022; \$2,963,851 for the quarter ended March 31, 2022; \$1,996,616 for the quarter ended December 31, 2021; \$2,093,252 for the quarter ended September 30, 2021; \$2,115,352 for the quarter ended June 30, 2021; and \$1,220,487 for the quarter ended March 31, 2021.

The Company's unaudited net income (loss) over the last eight quarters were as follows: \$(420,316) for the quarter ended December 31, 2022; \$(361,522) for the quarter ended September 30, 2022; \$(519,443) for the quarter ended June 30, 2022; \$(54,136) for the quarter ended March 31, 2022; \$(1,130,973) for the quarter ended December 31, 2021; \$(433,261) for the quarter ended September 30, 2021; (\$394,220) for the quarter ended June 30, 2021 and \$(800,113) for the quarter ended March 31, 2021.

Three Year History

2020

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The pandemic delivered a powerful economic setback for Kelso during Fiscal 2020 (as defined) as it reshaped the business dynamics in the rail tank car industry, which is historically cyclical. The Company focused on containment of the negative impacts of the pandemic on the Company's business model and the protection of the Company's key productive assets.

While certain government authorities in North America ordered the closure or minimization of all non-essential business operations in regions where it operates, the Company fell within the exemptions for businesses that provide essential products and workforces that carry out critical manufacturing. Throughout 2020, Kelso continued operations at its valve assembly facility in Bonham, Texas, and implemented preventative measures across the organization to ensure the safety of its employees, business partners and communities where it operates.

Given the unprecedented challenges of this crisis the Company adapted to a new way of operating and continued to manage and respond to the COVID-19 pandemic and maintain full adherence to measures put in place by applicable government authorities.

The original plans for the KXI Suspension System in 2020 before the negative impacts of the COVID-19 pandemic became reality were to take KXI Suspension System to the final commercial design specifications, regulatory approvals and revenue generation for light duty trucks. Due to many challenging variables, budgets and problematic R&D discoveries the Company was unable to complete the regulatory approved commercial "blueprint" for the Company's first product offerings of light duty trucks as originally scheduled. Given that the COVID-19 uncertainties continued to be problematic and unpredictable the Company carefully revised its R&D objectives. Kelso also had to delay ambitions for light duty truck "pilot" production operations and marketing initiatives and planned to focus on the Heavy-Duty truck market for 2021 and 2022.

On February 11, 2020, Mr. Frank C. Busch was appointed to the board of directors of the Company (the "**Board of Directors**"), as an independent director to fill the vacancy created by the resignation of Mr. Phil Dyer. Mr. Dyer continued to serve the Company as an advisor during the remainder of Fiscal 2020.

In May 2020, the AAR approved the Company's new standard profile ("4") bottom outlet valve with a ceramic ball ("**BOV**") for commercial field service trial testing. The standard profile BOV field service trial joined the Company's low-profile bottom outlet valve currently in field service trial testing, completion of which is required

for final AAR approvals. Kelso is committed to complete the field service trials of both low and standard profile BOV.

In July 2020, the AAR approved Kelso's new top ball valve ("KTBV") for commercial field service trial testing. The KTBV joined the Company's low-profile bottom outlet valve and standard-profile bottom outlet valve ("KBOV") in field service trial testing as a prerequisite for final AAR approvals. This achievement represented another successful milestone in the Company's revised product development initiatives for rail tank car equipment.

In September 2020, one of the Company's key customers started the installation of the Company's new 2" pressure car angle valve ("K2AV") for commercial field service trial testing as required by the AAR. The K2AV is a high-value specialized valve specifically designed for pressure tank cars. The service trial tested a total of fifteen K2AV units on five tank cars. Currently, there are approximately 85,000 pressure tank cars in the rail fleet today according to AAR statistics. The K2AV represents a significant opportunity for the Company to expand the Company's product footprint in rail tank car equipment.

Financial performance in 2020 suffered due to a 46% decline in sales activity over the prior year but operating expenses were reduced by 5% which allowed Kelso to stay cash flow positive (net of non-cash charges). This economic decline clearly highlighted the seriousness of the potential threat to the Company's business survival. The original equipment manufacturer ("OEM") rail tank car producers went into hibernation in April 2020 and have yet to return in a meaningful way but the retrofit and repair business remained open allowing the continuation of the Company's operations. Industry analysts (Freight Transportation Research ("FTR") Associates) anticipate that the OEM producers will return to production in 2021 and revenue streams from rail should begin to improve in the back half of 2021 and carry new momentum into 2022 and 2023.

The Company's working capital was \$6,251,893 as at December 31, 2020 although much of this was invested in inventories for future deliveries. At year end the Company's available cash reserves for operations were becoming depleted therefore new equity capital in the amount of CAD\$6,370,000 (before expenses) was secured subsequent to December 31, 2020.

2021

Mr. Chris Stewart replaced James R. Bond as President of KIQX with Mr. Bond remaining as Chief Executive Officer of KIQX. Mr. Stewart assumed the executive authority and responsibility for all aspects of the KXI Suspension System project. Mr. Stewart served as the General Manager of KIQX for several years and has been a key developer of the strategic business model for the KXI project.

In March 2021, the Company terminated its technology development agreement dated November 10, 2016 (the "Technology Development Agreement") with service provider, G & J Technologies Inc. (the "Service Provider"), and the inventor/innovator, Gebhard Charles Wager (the "Inventor"), which served as the development agreement for the Company's KXI Suspension System. The Company had a dispute with the Service Provider and the Inventor with respect to the terms of the Technology Development Agreement and received a demand letter from the Service Provider with respect to the ownership of certain intellectual property rights referenced in the Technology Development Agreement. The Service Provider commenced an arbitration proceeding for ownership of IP assets and damages for wrongful termination of the Technology Development Agreement. The Company filed a counterclaim for damages for misrepresentations by the Service Provider. The Company anticipates that it will have to monetarily settle these claims but the amount is undetermined at this time.

On March 4, 2021, the Company completed a private placement to raise aggregate gross proceeds of CAD \$6,370,000. A total of 7,000,000 units were issued at a price of CAD \$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant could be exercised at a price of CAD \$1.15 on or before 4:00 p.m. (Vancouver time) on March 4, 2022, and CAD \$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length, and the transaction did not materially affect control of the Company.

On August 25, 2021, the Company reported that it had completed the design, engineering and required regulatory testing of two key pieces of truck tanker equipment created for the reliable containment and pressure management of commodities that are transported via roads. The specialized products included a combined pressure/vacuum relief

valve (“PVR”) and a one-bolt manway (“OBM”). These new products were based on existing patents that are utilized in rail tank car applications and meet all Department of Transport (“DOT”) 407 49 CFR 178.345 regulations. The Company commenced marketing and sales initiatives to promote wide scale adoption of the truck tanker OBM and PVR.

In early November 2021, the Company received final certification of the Company’s pressure relief valve (“PCH”) for use on rail pressure cars from the AAR. The PCH had gone through rigorous field service trials over the past several years which concluded with a successful teardown and testing of a sample of field service trialed PCH valves by the AAR inspector. Pressure tank cars designated by DOT-105 and DOT-112 specifications are used to transport flammable, non-flammable or toxic liquefied compressed gases that must be shipped under pressure. The PCH is a key milestone for the Company because it allows the Company to pursue sizable untapped revenue opportunities in the rail pressure car market. The Company commenced marketing and sales initiatives to promote wide scale adoption of the PCH.

On November 17, 2021, the Company’s wholly owned subsidiary, KIQX, secured two key prototype development partners in its KXI™ Wildertec™ Heavy Duty (“HD”) Suspension (“KXI”) project. Vector Truck Designs (“Vector”) and Kinetic Drive Solutions (“KDS”) were contracted by KIQX to provide a team of automotive engineers, control system designers and software specialists that can guide KIQX to a regulatory compliant final production-ready HD prototype. Design ambitions are to meet the needs of the Company’s target markets with technological performance that can deliver new standards for safety and efficiency while providing environmental and cultural responsibility for vocational wilderness transportation applications. Vector will lead the project in final stage prototype design and development of all mechanical components. KDS joins KIQX as a specialist engineering partner who can lead to the development and completion of an integrated suspension control system for the HD prototype. The KDS design team brings a wealth of experience in control system development integrating ride height, stability, central tire inflation systems, rear steering functions featuring intelligent computerized vehicle control systems.

The prototype vehicle, when completed will go through extensive engineering integrity and Canadian Motor Vehicle Safety Standards compliance testing. This is to ensure that equipment operators are able to utilize the full efficiency of the KXI technology without compromising the safety of the occupants or the general public. COVID-19 has created many supply chain issues in the automotive industries, but the completion of the prototype is currently expected in the second or third quarter of 2023.

Financial results in 2021 worsened due to a decline in revenues of 33% as the hazardous tanker rail car market continued to decline. The gross profit margin remained strong at 43% and operating expenses increased by 2% over 2020 after adjusting for non-cash items. Expenses rose due to the increased activity of the Company’s suspension program. In addition, the Company recorded a gain on revaluation of derivative warrant liability of \$658,626. This gain was as a result of the Company conducting a private placement in Canadian dollars with warrants also priced in Canadian dollars.

The Company’s working capital remained strong at \$8,670,165 as at December 31, 2021 and cash at \$3,377,464. This strong position was mainly due to the private placement that the Company conducted earlier in the year. Trade payables were \$1,118,573 at December 31, 2021 and the only long-term debt the Company has is the long-term portion of leases.

2022

During 2022 the owners and shippers that utilize rail tank cars began to cautiously commit to investments in new tank car equipment and/or retrofitting their current rail tank car fleets. Total OEM production output in 2022 was 9,812 rail tank cars. Kelso provided 4,609 valves (47%) for new tank car production and 2,445 valves for retrofit and repair activity in 2022. This increase in business activity after a prolonged slowdown due COVID-19 reflected in a 47% increase in the Company’s sales in 2022 compared to the same period 2021.

Rail tank car activity requiring Kelso components grew modestly based on general economic recoveries and manufacturing supply chain disruptions that require an increase in rail tank car transportation solutions. Traditional foreign supply chains in the rail tank car industry have become unreliable and more costly for shippers’ operations. The Company’s “100% American-Made” reputation and its proven ability to service customer orders even during

the most challenging of times improved Kelso's service reputation to the point that the Company's market share grew to approximately 47% of new tank car production volume in 2022.

On February 17, 2022 the Company reported that all the participating oil refiners engaged in the service trials of the K2AV (the Company's new 2" angle valve) successfully installed the requisite number of K2AV units and full AAR compliance testing continued. The Kelso K2AV is a device specifically designed to transfer LP-Gas and anhydrous ammonia in pressurized railroad tank car applications.

The current pressure car fleet includes approximately 85,000 tank cars and each pressure tank car utilizes three K2AV units. These are high value specialty products and management's objectives are to generate multi-million-dollar revenues from the K2AV as oil refiners specify our products in larger numbers. The pressure tank car market is a previously untapped market for Kelso to develop.

The development of Kelso's K2AV has been driven by customers' demand for better performing angle valves due to irregular performance of the current products used in the market today. The Kelso K2AV is a single piece of high-quality fabricated steel eliminating porosity weakness found in foreign castings. It is designed for universal use, so there are no wetted or outlet O-rings to change out; it has a self-draining, self-cleaning seat; it has a low operating torque for ease of use; it has an adjustable packing gland; and it is a serviceable valve. The K2AV has an AAR standard mounting that will allow for ease of inter-changeability with other 2" angle valves. The K2AV is completely manufactured in the USA.

The K2AV rounds out Kelso's Pressure Car Kit which includes the PCH, an excess flow check valve, a thermometer well, a needle (sampling) valve and magnetic gauging device. The availability of the Kelso Pressure Car Kit provided customers with the opportunity for one-stop sourcing for pressure car needs.

The K2AV progressed well in its AAR service field trials throughout 2022 without incident.

In 2022 the Company's Standard Profile Bottom Outlet Valve went through the final engineering design stages with the cooperation of shippers to meet current OEM design specifications. This was an essential step for the Company to seek AAR service field trial approval which is a key component of attaining full AAR approval over the next few years.

The Company has been engaged with automotive engineers and experts allowing KIQ to move the R&D focus for KXI to equipping a heavy-duty (one ton or greater) "host" vehicle platform (KXI HD) which represents a larger and more accessible commercial market opportunities. The Company secured the services of several military and automotive OEM suppliers and highly qualified control system engineers along with specialized wilderness experts. This team of professionals agreed to support our R&D schedules to design and produce an initial KXI HD prototype in 2022 utilizing best available technologies with the goal of pilot production and sales in 2023. The KXI HD platform represents a much more realistic and accessible commercial market opportunity to pursue.

The fundamental objective of the KXI HD project has been the creation of a new legally road compliant suspension control technology that can greatly improve the technical performance of a combined road and wilderness vehicle. The focus of the KXI HD technology is to manage the center-of-gravity of the vehicle to provide better traction and better balance for passengers and payloads during commercial wilderness and disaster response operations.

To accomplish this in 2022, KXI HD utilized state of the art hydraulic mechatronic technologies controlled by the Company's encryption protected Road-To-No-Road™ wilderness driver assistance software system. Initial proprietary trademarks established in 2022 include PreciseRide™ and AdaptiveGrip™. The design objectives are to ensure all vehicle manoeuvres, whether automated or manual, are performed in a stable balanced position when driven in complex and dynamic environments including ledge climbs, ledge drops, extreme obstacles and severe side-slope challenges. The prototype is anticipated to be completed in 2023. Early testing of the design indicates that commercial stakeholders can expect the KXI HD to provide:

- Enhanced mobility with unique dual steering control technologies – The KXI HD rear steering control system combined with its new software functions vastly improve the safe manoeuvrability of the KXI HD vehicle by reducing the potential margins of operator error through automated intuitive adjustments provided in the wilderness software drive modes.

- Traction technology to better grip terrain in revolutionary ways – Supporting the vehicle center of gravity will be a responsive central tire inflation system and other key controls. KXI HD is expected to diminish wheel slip and enable safer climbing, traversing and descending operations resulting that can lower ecological impact and fuel consumption.
- Gyroscopic balanced ride control capabilities through preset and automatically adjusting configurations that improve ride quality to enable safer travel speeds on forest service roads and rugged trails, as well as enhanced access to heavily sloped and complex wilderness terrain.
- KXI HD expects to combine its mobility, traction and ride control technologies with a true all weather, all terrain, legally compliant road and wilderness solution for mission-critical events that require quick response times to emergency locations. KXI HD is designed to increase overall effectiveness and efficiencies for operators working in the wilderness through its single-vehicle solution which is expected to eliminate expensive and time-consuming trailer transportation for heavy equipment needed in difficult service areas.

Engineering design goals have been focused on the non-serviced needs of our target markets with new technological performance that can deliver new standards for safety, effectiveness and efficiency. It is expected that KXI HD can accomplish these goals while providing environmental and cultural responsibility for extreme vocational transportation applications.

Since 2021 the KXI HD prototype vehicle moved through initial engineering design processes, construction to completion in late 2022. All mechanical and hydraulic components are proven technologies that were sourced from well-established OEM suppliers and stakeholders. Component designs have been scaled from existing uses in military and commercial applications to fit the specifications of KXI HD. The engineering design included utilization and full integration of the Company's proprietary KXI HD encryption protected Road-To-No-Road™ wilderness driver assistance software that was also completed in late 2022. This process included simulation testing of the software as a prerequisite to commissioning the KXI HD prototype vehicle in 2023.

During 2022 the Company remained financially healthy with final working capital in the amount of \$7,000,568 as at December 31, 2022. Key components of working capital at December 31, 2022 included cash on deposit in the amount of \$2,712,446 and accounts receivable of \$1,381,979 to cover trade payables in the amount \$1,184,163. The only noninterest bearing long-term debt the Company has recorded is the long-term portion of the Company's leases.

Subsequent to Fiscal 2022

In 2023 rail industry projections indicate that the rail tank car market is entering a period of modest fleet growth coupled with growth in rail tank car utilization. Industry analysts predict new tank car demand at approximately 10,650 tank cars in 2023 – an 8.5% increase over 2022. The addition of new customers and the anticipated upswing in the build of new tank cars and retrofit/repair activity is expected to provide modest growth in financial performance from rail operations.

Management believes that there are significant opportunities to grow from the introduction of new innovative products in both the rail and automotive industries that are emerging from our R&D activities. The Company continues to invest in the research, development and engineering of promising new transportation related equipment. In the heavily regulated transportation industries, the Company's R&D projects are always complex, time consuming and expensive. The primary purpose of the Company's R&D investments is to advance and improve the probability of future financial successes from a larger and more diverse product line.

Several new rail tank car products currently in AAR service field trials progressed well throughout 2022. The Company anticipates regulatory progress in 2023 that can lead to new revenue sources when full approval and early AAR vetted conditional sales to qualified customers are permitted.

The KXI HD prototype vehicle has been completed and has begun initial testing activities. All mechanical and hydraulic components are proven technologies that are sourced from well-established OEM suppliers and stakeholders. Component designs have been scaled from existing uses in military and commercial applications to fit the specifications of KXI HD. The prototype vehicle has been commissioned with the Company's proprietary encryption protected Road-To-No-Road™ wilderness driver assistance software which encompasses our new trademarks PreciseRide™ and AdaptiveGrip™. The commissioned prototype vehicle is currently going through

extensive software and engineering integrity testing in preparation for Canadian Motor Vehicle Safety Standards compliance testing.

Once KXI HD has its commercial design specifications completed the final design will have to attain full compliance with the Canadian Motor Vehicle Safety Standards (CMVSS). Successful completion of the CMVSS requirements should allow the Company to meet the Federal Motor Vehicle Safety Standards (FMVSS) in the United States including the majority of compliance requirements for each Canadian province and each American state. This is expected to provide the Company with a National Safety Mark awarded as a final stage manufacturer which is a key prerequisite for enabling full scale marketing initiatives and initial commercial sales in late 2023 and 2024.

Timing of regulatory approvals on new rail and automotive products and corresponding revenue streams remains unpredictable and cannot be guaranteed to be successful. Management continues to assess the Company's research and development discoveries, new product viability, budget restrictions and market potential of all R&D programs. Management adjusts R&D plans based on testing results as part of the Company's R&D risk management program. Despite the many challenges imposed by the COVID-19 recession, historic inflation rates and compromised supply chain issues, Management remains bullish on the potential of the Company's new product developments.

The Company deploys capital resources sensibly to maintain financial health and liquidity. The Company's working capital was \$7,000,568 as at December 31, 2022. Current working capital and anticipated sales activity for 2023 is expected to protect the Company's ability to conduct ongoing business operations and R&D initiatives for the foreseeable future. With no interest-bearing long-term debt to service and improved sales prospects from a larger product portfolio, Kelso can continue to concentrate on stronger financial performance from a more diverse range of products.

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.

Additional Information

The U.S. Securities and Exchange Commission (the "SEC") maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov. The Company's website is www.kelsotech.com.

B. Business Overview

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

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.

The Company has firmly 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 valves, top ball valves, vacuum relief valves 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 was 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 the Company's wholly owned subsidiaries Kelso Technologies (USA) Inc, KIQ X Industries Inc., Kel-Flo Industries Inc. (formerly Kelso Innovative Solutions Inc.), KIQ Industries Inc. and KXI™ Wildertec™ Industries Inc.

Over the past five years Management has established multi-million dollar sales of the Company's 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: \$10,931,188 for the year ended December 31, 2022; \$7,425,707 for the year ended December 31, 2021; \$11,149,130 for the year ended December 31, 2020; \$20,550,682 for the year ended December 31, 2019; and \$12,716,596 for the year ended December 31, 2018.

The Company's net earnings (loss) performance over the last five year end periods were as follows: net loss of \$1,355,417 for the year ended December 31, 2022; net loss of \$2,758,567 for the year ended December 31, 2021; net loss of \$1,307,890 for the year ended December 31, 2020; 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.

The rail tank car industry is historically cyclical. The Company's primary market (hazmat rail tank cars) slowed considerably during the rail recession in 2016 and 2017 and improved in 2018 and 2019 to restore the Company's financial health. In 2020 and 2021 COVID-19 delivered a powerful economic setback for Kelso as the pandemic significantly reshaped the business dynamics in the rail tank car industry. Given the unprecedented challenges of this crisis the Company's main focus was the containment of negative impacts on the Company's longer-term business model and the protection of the Company's key productive assets, research and development and its ability to continue business operations. The Company concentrated on preparedness for post-pandemic normalization and readiness for a strong restart of business growth. In 2022 revenues improved by 47% which allowed Kelso to continue its R&D projects in both the rail and automotive industries.

Financial performance in 2022 saw sales recover by 47% after a dramatic 33% setback in 2021. Both of these items raised concerns of the Company's abilities to continue business operations. The OEM rail tank car producers slowed in April 2020 and have started to improve modestly. The retrofit and repair business segments remained open allowing the continuation of the Company's operations. Industry experts anticipate that the OEM producers will return to better production and retrofit operations in 2023. Management believes that revenue streams from rail tank car operations should continue to improve slowly over the upcoming years.

The Company's working capital was \$7,000,568 as at December 31, 2022 that includes \$4,144,196 in inventories required for timely future deliveries. Capital resources are expected to protect the Company's ability to conduct ongoing business operations for the foreseeable future.

Rail tank car product development requires long AAR approval processes which continue to impede Kelso's ability to improve sales with additional rail tank car equipment. The Company has active service field trials in process with the AAR for the Company's new standard profile ceramic ball bottom outlet valve, top ball valve and angle valve, although final AAR approval processes take considerable time to complete. Our pressure tank car PCH valve has now been approved for full commercial use adding to our sales growth potential. These new product developments have been derived through co-engineering and testing support from the Company's key customers which may strengthen the probability of longer term adoption by the rail industry.

The Company's non-rail product development initiatives concentrate on a wider range of transportation technology products that are designed to provide unique economic benefits and safe operational advantages to commercial customers. The Company's goal is to spread the Company's business risk to diminish the severe negative impacts of the historic down cycles in the rail industry.

Commencing in 2017, Management actively pursued new diverse marketplace opportunities outside of the rail industry. The overall strategic plan is to spread business risks by accessing non-rail markets to diminish the severe negative impact of the reliance on a small number of customers and the historic down cycles in the rail industry.

Kelso, through the Company's wholly owned subsidiary KIQ X Industries (KIQ) is focused on the research and development of an advanced "Road-To-No-Road™" suspension system known as the KXI™ Wildertec™ Suspension System (KXI). KXI is being designed to provide safer, more effective, efficient and ecologically responsible capability for commercial wilderness operations. The KXI is a new pioneer brand initiated by Kelso to service the niche industry of commercial wilderness transportation technologies. The Company's goal is to utilize well established automotive engineering practices to solve the challenges of extreme wilderness terrain travel and create opportunities and efficiencies for both industrial and public service customers.

The Phase-One half-ton "concept" vehicles were fitted with the service providers' air suspension innovations, initial component tooling and parts and installation of the mechanical KXI components on a light duty half ton "host" vehicle. Multiple vehicles were converted and tested. Desired performance fell well short of expectations due to software automation deficiencies, regulatory compliance problems and engineering durability requirements. The key issue was that the design specifications could not attain full compliance with the Canadian Motor Vehicle Safety Standards (CMVSS). Unfortunately, ongoing research and testing of the original half-ton KXI prototypes revealed engineering, safety and economic issues that rendered the half-ton KXI prototype concept commercially unfeasible.

In March, 2021 the Company terminated the original Technology Development Agreement (TDA) with the contracted service providers for the KXI Air Suspension System, including the consulting agreement for \$10,000 per month. According to the terms of the TDA the Company Kelso may still be liable for a 2.5% royalty to the service provider or their assigns should Kelso use their technologies in a commercially sold product. The terms of the termination are currently being disputed by the service providers. The dispute has entered the final ruling stages of an arbitration process that should soon provide a legal resolution pursuant to the terms of the TDA.

In 2021 based on knowledge gained from inputs from automotive engineers and wilderness experts KIQ moved the R&D focus for a brand new KXI Heavy Duty (KXI HD) suspension system that would be a legally compliant. The goal was to create a "Road-To-No Road™" vehicle that featured a durable, automated state-of-the-art hydraulic suspension system. The design ambition was to equip and enable a heavy-duty (one ton or greater) "host" vehicle platform that would represent larger and more achievable commercial market opportunities.

The Company secured the services of several military and automotive OEM suppliers and highly qualified software and suspension engineers as well as specialized wilderness experts. These stakeholders confirmed that our new R&D direction was a unique bona fide opportunity to pursue. They agreed to support our R&D schedules to design and produce an initial KXI HD prototype.

The KXI HD prototype vehicle is anticipated to be completed in late 2023. All mechanical and hydraulic components are proven technologies that are sourced from well-established OEM suppliers and stakeholders. Component designs have been scaled from existing uses in military and commercial applications to fit the specifications of KXI HD. The prototype vehicle has been commissioned with the Company's proprietary encryption protected Road-To-No-Road™ wilderness driver assistance software which encompasses our trademarks PreciseRide™ and AdaptiveGrip™. The commissioned prototype vehicle is currently going through extensive software and engineering integrity testing in preparation for Canadian Motor Vehicle Safety Standards compliance testing.

Once completed these design specifications will have to attain full compliance with the Canadian Motor Vehicle Safety Standards (CMVSS). Successful completion of the CMVSS requirements should allow the Company to meet the Federal Motor Vehicle Safety Standards (FMVSS) in the United States including the majority of compliance requirements for each Canadian province and American state. This is expected to provide the Company with a national safety mark awarded as a final stage manufacturer which is a key prerequisite for enabling full scale marketing initiatives and initial commercial sales in late 2023 and 2024.

Business Model

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

The Company keeps rail products smart, simple and focused on customer needs. Kelso concentrates on sound business fundamentals, operational practices, adjusted EBITDA returns and careful capital management. Today, the Company invests in customer driven co-engineered product development to improve the probability of market adoption. This allows Kelso to prepare marketing initiatives to capitalize on sales opportunities. Management monitors industry trends and regulated technology requirements to select R&D projects that can be fruitful for the Company's future revenue streams. The ambition is that the Company's engineering team can proactively resolve issues for customers before reactionary measures are required.

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.

Market and Products

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

The Company keeps products smart, simple and focused on customer needs. Kelso concentrates on sound business fundamentals, operational practices, Adjusted EBITDA returns and careful capital management. Today, the Company invests in customer driven co-engineered product development to improve the probability of market adoption. This allows Kelso to prepare marketing initiatives to capitalize on sales opportunities. Management monitors industry trends and regulated technology requirements to select R&D projects that can be fruitful for the Company's future revenue streams. The ambition is that the Company's engineering team can proactively resolve issues for customers before reactionary measures are required.

Currently the Company offers 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 by rail tank car. The Company's commercial business evolution began with the adoption of the Company's patented constant force pressure relief valves during the surge in crude-by-rail (CBR) shipments from 2012 to 2015. Since 2012 the Company has distributed over 89,000 valves and generated more than \$137 million in revenues. Total OEM production output in 2022 was 9,812 rail tank cars. Kelso provided 4,609 valves (47%) for new tank car production and 2,445 valves for retrofit and repair activity in 2022.

The Company's products provide a rewarding economic value proposition for all rail 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 the Company's products. Key products include:

Rail and Road Transport Equipment

- Pressure relief valves
- Vacuum relief valves
- Bottom outlet valves (under AAR field service trials)
- Pressure car pressure relief valves (AAR approved - new market)
- Pressure car angle valves (under AAR field service trials - new market)
- Top ball valves (under AAR field service trials)
- DOT 407 PRV/VRV for truck tankers (new market)
- One-bolt manways and related equipment
- Emergency response equipment for hazmat first responders
- No spill locomotive fueling equipment
- Other specialty valves, parts, equipment and services

Rail Tank Car Market Indicators

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 the 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.

Based on current projections from industry analysts (Freight Transportation Research ("FTR") Associates) new tank car demand is expected to reach 10,650 tank cars in 2023. In addition, significant retrofits are planned to address the 135,000 tank cars that were delivered between 2012 and 2017 and will now come due for recertification during the next few years. The anticipated modest upswing in new build and retrofit activity combined with a growing number of qualified Kelso products are expected to fuel new financial growth from rail operations.

The Company will continue to develop new rail products that are anticipated to provide new financial growth opportunities. The Company's 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 producing economic rewards with proven reliable equipment.
- To build reliable equipment featuring high-quality milled parts eliminating problematic imported cast parts that lead to complex expensive repairs for customers.
- To ensure that customers benefit with more profitable in-service time for tank cars.

Wilderness Transportation Equipment Market

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

In 2017 Kelso through the Company's wholly owned subsidiary KIQ X Industries Inc. (KIQ) began the development of a unique vehicle suspension system that provided new rapid response "road-to-no-road" capabilities regardless of the climate or the severity of the terrain. The KXI Suspension System is being developed under the product brand (Wildertec™) initiated by Kelso to service the niche industries of commercial wilderness and emergency management transportation technologies. The Company's goal is to utilize well established automotive and equipment engineering practices to solve the challenges of extreme terrain travel and create opportunities and efficiencies for both industry and public service customers.

The catalyst to the Company's 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 most effectively respond to threats to public safety and better protection of emergency responders in the wilderness.

The Company considered the engineering challenge and ambition worth pursuing. Environmental experts continue to warn 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 harm's way and society will have to respond to these events with better capabilities, faster response times and improved effectiveness to preserve human lives and prevent property damage.

In March, 2021 the Company terminated the original Technology Development Agreement (TDA) with the contracted service providers for the Air Suspension KXI Suspension System, including the consulting agreement for \$10,000 per month. According to the terms of the TDA the Company Kelso may still be liable for a 2.5% royalty to the service provider or their assigns should Kelso use their technologies in a commercially sold product. The terms of the termination are currently being disputed by the service providers. The dispute has entered the final stages of an arbitration process that should provide a legal resolution pursuant to the terms of the TDA.

In 2021 the Company engaged automotive engineers and experts allowing KIQ to move the R&D focus for KXI to equipping a heavy-duty (one ton or greater) "host" vehicle platform (KXI HD) which represents a larger and more accessible commercial market opportunity. The Company secured the services of several military and automotive OEM suppliers and highly qualified control system engineers along with specialized wilderness experts. They agreed to support our R&D schedules to design and produce an initial KXI HD prototype in 2022 utilizing best available technologies with the goal of pilot production and sales in 2023. The KXI HD platform represents a much more realistic and accessible commercial market opportunity to pursue.

The fundamental objective of the KXI HD project has been the creation of a new legally road compliant suspension control technology that can greatly improve the technical performance of a combined road and wilderness vehicle. The focus of the KXI HD technology is to manage the center-of-gravity of the vehicle to provide better traction and better balance for passengers and payloads during commercial wilderness and disaster response operations.

To accomplish this, KXI HD has utilized state of the art hydraulic mechatronic technologies controlled by the Company's proprietary encryption protected wilderness driver assistance software system. Initial proprietary trademarks include PreciseRide™ and AdaptiveGrip™. The design objective is to ensure all vehicle maneuvers, whether automated or manual, are performed in a stable balanced position when driven in complex and dynamic environments including ledge climbs, ledge drops, extreme obstacles and severe side-slope challenges. The prototype has been completed and early testing of the design indicates that commercial stakeholders can expect the KXI HD to provide:

- Enhanced mobility with unique dual steering control technologies – The KXI HD rear steering control system combined with its new software functions vastly improve the safe maneuverability of the KXI HD vehicle by reducing the potential margins of operator error through automated intuitive adjustments provided in the wilderness software drive modes.
- Traction technology to better grip terrain in revolutionary ways – Supporting the vehicle center of gravity will be a responsive central tire inflation system and other key controls. KXI HD is expected to diminish wheel slip and enable safer climbing, traversing and descending operations resulting that can lower ecological impact and fuel consumption.
- Gyroscopic balanced ride control capabilities through preset and automatically adjusting configurations. This improves ride quality to enable safer travel speeds on forest service roads and rugged trails, as well as enhanced access to heavily sloped and complex wilderness terrain.
- KXI HD expects to combine its mobility, traction and ride control technologies with a true all weather, all terrain, legally compliant road and wilderness solution for mission-critical events that require quick response times to emergency locations. KXI HD is designed to increase overall effectiveness and efficiencies for operators working in the wilderness through its single-vehicle solution which is expected to eliminate expensive and time-consuming trailer transportation for heavy equipment needed in difficult service areas.

Engineering design goals have been focused on the non-serviced needs of our target markets with new technological performance that can deliver new standards for safety, effectiveness and efficiency. It is expected that KXI HD can accomplish these goals while providing environmental and cultural responsibility for extreme vocational transportation applications.

The KXI HD prototype is anticipated to be completed in late 2023. All mechanical and hydraulic components are proven technologies that are sourced from well-established OEM suppliers and stakeholders. Component designs have been scaled from existing uses in military and commercial applications to fit the specifications of KXI HD. The prototype vehicle is going through extensive engineering integrity testing, software commissioning and debugging to prove the Road-To-No-Road design principle is achievable.

Once completed these design specifications will have to attain full compliance with the Canadian Motor Vehicle Safety Standards (CMVSS). Successful completion of the CMVSS requirements should allow the Company to meet the Federal Motor Vehicle Safety Standards (FMVSS) in the United States including the majority of compliance requirements for each Canadian province and American state. This is expected to provide KIQ a National Safety Mark awarded as a final stage manufacturer which is a key prerequisite for enabling commercial sales in late 2023 and 2024.

The goal is full legal compliance of the design that ensures that equipment operators are able to utilize the full efficiency of the KXI HD technology without compromising the safety of the vehicle, occupants and the general public. This is expected to qualify the KXI HD vehicle for full scale marketing and sales.

Production Facilities

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. The Company has been granted the required certifications including holding an AAR M1002 Class D Registration and AAR M1003 Quality Assurance System Certification for the Company's production facilities from the AAR.

KXI HD research and development operations are located in a new 3,500 square foot facility in West Kelowna, British Columbia, Canada. This facility is modern and well suited to the development of the heavy duty vehicle initiatives. It facilitates our key engineers, specialists and OEM suspension control experts and strategic R&D schedules to produce a regulatory compliant KXI HD prototype in 2023 with the goal of pilot production and initial sales in late 2023. This strategic direction and new facility is expected to reduce R&D costs and maintain strategic business timetables.

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, 2022, the Company had 38 employees (December 31, 2021 – 45 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.

The Company's KXI Suspension System must meet and fully comply with the rules and regulations set forth by the Canadian Motor Vehicle Safety Standards and the Federal Motor Vehicle Safety Standards in the United States. Failure to meet these requirements could have a material negative impact on the Company's ability to obtain purchase orders and generate meaningful revenues.

Intellectual Property Dispute

The Company has a dispute with the Service Provider and the Inventor in respect of the Technology Development Agreement between the parties dated November 10, 2016. On January 7, 2020, the Company received a demand letter the Service Provider with respect to the ownership of certain intellectual property rights referenced in the

Technology Development Agreement. The Company then terminated the Agreement with the Inventor and the Service Provider, and the Service Provider then commenced an arbitration proceeding for ownership of IP assets and damages for wrongful termination of the Technology Development Agreement. The Company has a counterclaim for damages for misrepresentations by the Service Provider. The Company anticipates that it will have to monetarily settle these claims but the amount is undetermined at this time.

Although management believes that the claim by the Service Provider is without merit, arbitrating the claim may be costly and time consuming. In addition, if the Service Provider's proceeding is successful against the Company, it could result in the Company's business, intellectual property rights, operating results and financial condition being materially adversely affected.

C. Organizational Structure

The Company has five 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. The Company owns 100% of the voting securities of each of these 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 HD production operations are located in West Kelowna, British Columbia, Canada. The Company is currently shifting its R&D focus to Heavy Duty trucks that will form the foundation of Kelso's pilot production program. Assembly drawings and tooling are expected be completed and ready to be tested in 2023.

As at December 31, 2022, the total carrying value for the Company's property, plant and equipment was \$3,277,262 (December 31, 2021: \$3,246,394), the breakdown of which is as follows: land \$12,558 (December 31, 2021: (\$12,558), buildings \$2,080,812 (December, 2021: \$2,166,168), leasehold improvements \$Nil (December 31, 2021: \$4,143), production equipment \$260,481 (December 31, 2021: \$308,059), prototypes \$840,030 (December 31, 2021: \$605,866) and Right of Use assets \$83,111 (December 31,2021:\$149,600).

At the time of this filing, the Company has no new plans for further acquisition or construction of new buildings as management believes 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, 2022 ("Fiscal 2022"), December 31, 2021 ("**Fiscal 2021**") and December 31, 2020 ("**Fiscal 2020**") 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 2022, Fiscal 2021 and Fiscal 2020(collectively, the "**Reported Periods**") were prepared in accordance with IFRS as issued by the IASB.

	Year ended December 31 2022	Year ended December 31 2021	Year ended December 31 2020
Revenues	\$10,931,188	\$ 7,425,707	\$ 11,149,130
Cost of goods sold	\$6,022,192	\$ 4,229,215	\$ 6,356,452
Gross profit	\$4,908,996	\$ 3,196,492	\$ 4,792,678
Gross profit margin	45%	43%	43%
Expenses including non-cash items	\$6,126,992	\$ 6,254,981	\$ 5,768,476
Gain on revaluation of derivative warrant liability	\$263,446	\$ 658,626	\$ -
Income tax expense (recovery)	\$166,031	\$ 172,639	\$ 248,992
Net income (Loss) for the year	\$(1,355,417)	\$ (2,758,567)	\$ (1,307,890)
Number of common shares outstanding	54,320,086	54,320,086	47,170,086
Basic earnings (Loss) per common share	\$(0.02)	\$ (0.05)	\$ (0.03)
Adjusted EBITDA(Loss)	\$(83,575)	\$ (1,436,435)	\$ 366,157
Cash	\$2,712,446	\$ 3,377,464	\$ 1,049,049
Working capital	\$7,000,568	\$ 8,670,165	\$ 6,251,893
Total assets	\$12,147,143	\$ 13,728,510	\$ 12,016,515
Shareholders' equity	\$10,781,672	\$ 12,055,113	\$ 10,960,923
Dividends paid per share	\$ 0.00	\$ 0.00	\$ 0.00

Revenues for 2022 rose as the effects of the pandemic on the economy were behind us and we returned to more normal demand levels. Revenues for 2020 and 2021 declined due to the general shutdown of the economy as a result of the COVID-19 pandemic. 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. However, that uptrend ceased in 2020 due to COVID-19.

From 2017 through today our strategic plan has been focused on 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. In addition, the Company has entered into the automotive sector developing a “road-to-no-road” suspension system for motor vehicles being used in rugged wilderness terrains.

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. With the impact of COVID-19 the Company’s cash flow in 2020 was greatly diminished and it was necessary for the Company to seek an influx of capital after the 2020-year end. The subsequent private placement that was completed is expected to be more than enough capital to keep the Company in good financial standing for 2021 and into 2022. The Company’s goal is to avoid dilutive equity funding activities and to remain free of interest-bearing long-term debt.

Throughout the last four 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, 2022 Compared to the Year Ended December 31, 2021

For the year ended December 31, 2022, the Company reported a net loss of \$1,355,417 (\$0.02 per share) against revenues of \$10,931,188 compared to a net loss of \$2,758,567 (\$0.05 per share) against revenues of \$7,425,707 for the year ended December 31, 2021.

Gross profit margin returns were \$4,908,996 (45% of revenues) for the year ended December 31, 2022, compared to \$3,196,492 (43% of revenues) for the year ended December 31, 2021. Gross profit margin decreased slightly due to increased material costs.

Total operational expenses decreased to \$6,126,992 for the year ended December 31, 2022, compared to \$6,254,091 for the year ended December 31, 2021. Expenses decreased by 2% and fell in line with management's overall strategic plans and expectations to facilitate the current rail business and the development of the Company's KXI HD Suspension System.

Factors in the reported income for the year ended December 31, 2022, include expenses related to ongoing marketing initiatives in the amount of \$409,256 (2021 – \$353,010) and related travel costs of \$111,235 (2021 – \$64,419). These expenses are related to ongoing marketing programs for existing and new products. Travel costs have increased due to COVID 19 "work-from-home" circumstances not being such a factor in 2022.

A key component of the Company's future business growth is the research, design, testing and qualification of new rail and automotive products. During the year ended December 31, 2022, the Company's industrial product design and development costs were \$1,068,708 (2021 – \$1,697,497). In addition to the Company's ongoing rail equipment R&D the majority of these expenses relate to design and continuing testing of the Company's KXI Suspension System. New product developments are necessary to provide diverse opportunities for Kelso to grow the Company's future revenues from new markets. The Company's goal is to diminish the financial effects of a historically cyclical rail tank car market with non-rail product development.

Management continues to carefully manage both the Company's rail operations and KXI Suspension System research and development with the goal of new longer term diverse business growth. This is reflected in the Company's investments in human resources, marketing, sales and production operations for the year ended December 31, 2022. The Company recorded office and administrative costs of \$2,278,467 (2021 – \$2,243,413) and Management compensation was \$720,003 (2021 – \$720,923). There were no accruals for management bonuses in 2022 or 2021. Consulting fees were \$318,846 (2021 – \$325,024) while investor relations remained unchanged at \$84,000 (2021 – \$84,000).

Accounting, audit and legal fees are cost components of the Company's 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 \$518,543 for the year ended December 31, 2022 (2021 – \$271,613). This includes legal costs for an on-going arbitration process relating to a technology development agreement as well as ongoing US tax and audit requirements. Other legal costs relate to an increase in patent applications, public company administration including arbitration costs, 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 (20-F).

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 the Company has recorded a foreign exchange gain (loss) of \$(55,231) for the year ended December 31, 2022 (2021 - \$78,428).

The Company has recorded an income tax expense of \$166,031 for the year ended December 31, 2022 compared to an income tax expense of \$172,639 for the year ended December 31, 2021. The tax expense is calculated on the income for tax purposes which is a result of adjusting accounting income (loss) for non-cash items. In the past, the Company has had losses to apply against taxes payable. These losses have been exhausted.

The Company has recorded a gain on revaluation of derivative warrant liability of \$263,446 (2021 - \$658,626). This is a result of the Company completing a Canadian \$ private placement during 2021. There were warrants attached to the private placement which are exercisable in Canadian \$. As the Company's functional currency is the US dollars, this gave rise to a derivative liability.

Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

For the year ended December 31, 2021, the Company reported a net loss of \$2,758,567 (\$0.05 per share) against revenues of \$7,425,707 compared to a net loss of \$1,307,890 (\$0.03 per share) against revenues of \$11,149,130 for the year ended December 31, 2020.

Gross profit margin returns were \$3,196,492 (43% of revenues) for the year ended December 31, 2021, compared to \$4,792,678 (43% of revenues) for the year ended December 31, 2020. Gross profit margin decreased slightly due to increased material costs.

Total operational expenses increased to \$6,254,981 for the year ended December 31, 2021, compared to \$5,768,476 for the year ended December 31, 2020. Expenses increased by 8% and fell in line with management's COVID-19 revised strategic plans and expectations to facilitate the current rail business and the development of the Company's KXI Suspension System.

Factors in the reported income for the year ended December 31, 2021, include expenses related to ongoing marketing initiatives in the amount of \$353,010 (2020 - \$365,193) and related travel costs of \$64,419 (2020 - \$52,497). These expenses are related to ongoing marketing programs for existing and new products. Travel costs have been greatly minimized due to COVID 19 "work-from-home" circumstances.

A key component of the Company's future business growth is the research, design, testing and qualification of new rail and automotive products. During the year ended December 31, 2021, the Company's industrial product design and development costs were \$1,697,497 (2020 - \$1,391,712). In addition to the Company's ongoing rail equipment R&D the majority of these expenses relate to design and continuing testing of the Company's KXI Suspension System. New product developments are necessary to provide diverse opportunities for Kelso to grow the Company's future revenues beyond the COVID-19 crisis from new markets. The Company's goal is to diminish the financial effects of a historically cyclical rail tank car market with non-rail product development.

Management continues to carefully manage both the Company's rail operations and KXI Suspension System research and development with the goal of new longer term diverse business growth. This is reflected in the Company's investments in human resources, marketing, sales and production operations for the year ended December 31, 2021. The Company recorded office and administrative costs of \$2,243,413 (2020 - \$2,074,623) and Management compensation was \$720,923 (2020 - \$670,269). Management compensation includes an accrual for contractual management performance bonuses for the year ended December 31, 2021, of \$Nil (2020 - \$28,423). 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. Management bonuses declined based on the financial performance of the Company. Consulting fees were \$325,024 (2020 - \$265,507) while investor relations remained unchanged at \$84,000 (2020 - \$84,000).

Accounting, audit and legal fees are cost components of the Company's 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 \$271,613 for the year ended December 31, 2021 (2020 - \$312,213). This includes ongoing US tax and audit requirements. Other legal costs relate to an increase in patent applications, public company administration including arbitration costs, 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 (20-F).

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 the Company has recorded a foreign exchange gain of \$78,428 for the year ended December 31, 2021 (2020 - \$11,254).

The Company has recorded an income tax expense of \$172,639 for the year ended December 31, 2021 compared to an income tax expense of \$248,992 for the year ended December 31, 2020. The tax expense is calculated on the income for tax purposes which is a result of adjusting accounting income (loss) for non-cash items. In the past, the Company has had losses to apply against taxes payable. These losses have been exhausted.

The Company has recorded a gain on revaluation of derivative warrant liability of \$658,626 (2020 -\$Nil). This is a result of the Company completing a Canadian \$ private placement during the year. There were warrants attached to the private placement which are exercisable in Canadian \$. As the Company's functional currency is the US dollars, this gave rise to a derivative liability.

B. Liquidity and Capital Resources

The Company's primary source of revenue to date has been 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 2022 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. 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. 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, 2022 Compared to December 31, 2021

As at December 31, 2022 the Company had cash on deposit in the amount of \$2,712,446, accounts receivable of \$1,381,979, prepaid expenses of \$92,768 and inventory of \$4,144,196 compared to cash on deposit in the amount of \$3,377,464, accounts receivable of \$807,009, prepaid expenses of \$161,490 and inventory of \$5,534,558 as at December 31, 2021.

The Company has income tax payable of \$30,626 at December 31, 2022 and \$nil at December 31, 2021.

The working capital position of the Company as at December 31, 2022 was \$7,000,568 compared to \$8,670,165 as at December 31, 2021. The 2021 working capital position was a result of a private equity placement completed in March 2021 pursuant to which 7,000,000 units were issued at a price of CAD \$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD \$1.15 per common share on or before 4:00 p.m. (Vancouver time) on March 4, 2022 and CAD \$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length, and the transaction did not materially affect control of the Company. There were no financings conducted during 2022.

Net assets of the Company were \$10,781,672 as at December 31, 2022 compared to \$12,055,113 as at December 31, 2021. The Company had no interest-bearing long-term liabilities or debt as at December 31, 2022 or December 31, 2021.

The Company's post COVID-19 business prospects are encouraging as the OEMs and owners of tank cars have become optimistic about the market trends improving in 2023 however the Company is still operating in uncertain times. Management takes all necessary precautions to minimize risks however additional risks could affect the future performance of the Company.

December 31, 2021 Compared to December 31, 2020

As at December 31, 2021 the Company had cash on deposit in the amount of \$3,377,464, accounts receivable of \$807,009, prepaid expenses of \$161,490 and inventory of \$5,534,558 compared to cash on deposit in the amount of \$1,049,049, accounts receivable of \$535,659, prepaid expenses of \$162,739 and inventory of \$5,462,532 as at December 31, 2020.

The Company had no income tax payable as at December 31, 2021 compared to income tax payable of \$91,566 as at December 31, 2020.

The working capital position of the Company as at December 31, 2021 was \$8,670,165 compared to \$6,251,893 as at December 31, 2020. The improvement in the working capital position came about on March 4, 2021 when the Company completed a private equity placement whereby 7,000,000 units were issued at a price of CAD \$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD \$1.15 per common share on or before 4:00 p.m. (Vancouver time) on March 4, 2022 and CAD \$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length, and the transaction did not materially affect control of the Company. Capital resources are now expected to protect the Company's ability to conduct ongoing business operations as planned for the foreseeable future.

Net assets of the Company improved to \$12,055,113 as at December 31, 2021 compared to \$10,960,923 as at December 31, 2020 due to the new equity placement. The Company had no interest-bearing long-term liabilities or debt as at December 31, 2021.

The Company's post COVID-19 business prospects are encouraging as the OEMs and owners of tank cars have become optimistic about the market trends improving in 2022 however the Company is still operating in uncertain times. There is a possibility of further diminishment of the Company's financial performance during 2022 due to the pandemic protocols although the duration of the downturn still remains uncertain. The Company believes that Kelso's debt free financial position and available capital reserves at the date of this report will allow Kelso to make it through the COVID-19 crisis.

Management takes all necessary precautions to minimize risks however additional risks could affect the future performance of the Company.

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

A key component of the Company's future business growth is the research, design, testing and qualification of new rail and automotive products. New product developments are necessary to provide diverse opportunities for Kelso to grow the Company's future revenues beyond the COVID-19 crisis from new markets. The Company's goal is to diminish the financial effects of a historically cyclical rail tank car market with non-rail product development. 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 past three years: \$1,068,708 in Fiscal 2022; \$1,697,497 in Fiscal 2021 and \$1,391,712 in Fiscal 2020. In addition to the Company's ongoing rail equipment R&D the majority of these expenses relates to design and continuing testing of the Company's KXI HD Suspension System.

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, 2022 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, 2022. 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 consolidated 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:

Name	Position(s) Held with Company	Principal Business Activities and Other Principal Directorships
James R. Bond	Director President and CEO	President of Bondwest Enterprises Inc.; CEO, President and Director of SIQ Mountain Industries Inc. (SIQ:NEX).
Peter Hughes	Director Compensation Committee Member	Self-employed businessman; Director and CEO of SIQ Mountain Industries Inc. (SIQ: NEX); CEO and Director of Gourmet Ocean Products Inc. (GOP: TSXV), Director of NOA Lithium Brines Inc. (NAVN: TSXV); Director, President and CEO of Happy Creek Minerals Ltd (HPY:TSXV) and Director, Plantable Health Inc. (PLBL: NEO).
Anthony (Tony) Andrukaitis	Director COO	Independent Business Consultant.
Edward (Paul) Cass	Lead Director Audit Committee Member Compensation Committee Member (Chair)	Self-Employed Businessman.
Laura Roach	Director Compensation Committee Member Corporate Governance and Nominating Committee (Chair)	Attorney and partner at the national law firm McCathern Law located in Frisco, Texas.
Jesse V. Crews	Director Corporate Governance and Nominating Committee Member	Senior Adviser to Trinity Industries Leasing Company, the railcar leasing subsidiary of Trinity Industries Inc.
Frank Busch	Director Audit Committee Member (Chair) Corporate Governance and Nominating Committee Member	Director of Economic Development, Strategies North Inc.
Richard Lee	CFO	Self-employed businessman. CFO of the Company since April 8, 2010. CFO and Director of SIQ Mountain Industries Inc. (SIQ: NEX), CFO of Happy Creek Minerals Inc. (HPY:TSXV) and CFO of Plantable Health Inc. (PLBL:NEO).
Amanda Smith	Vice President Operations	Vice President Operations for the Company
Chris Stewart	President KIQ X Industries Inc.	President of KIQ X Industries Inc.

James R. Bond (69 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 private 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 NEX Exchange, a sub-exchange of the TSXV.

Peter Hughes (61 years) Director

Mr. Hughes has been a director of the Company since October 4, 2010 and is a member and Chair of the Company's Compensation 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 CEO and director of SIQ Mountain Industries Inc., a company listed on the NEX, a sub-exchange of the TSXV, President, CEO and a director of Happy Creek Minerals Inc., CEO and director of Gourmet Ocean Products Inc. and a director of NOA Lithium Brines Inc., all of which are on the TSXV, as well as a director of Plantable Health Inc., which is listed on the NEO Exchange in Canada.

Anthony (Tony) Andrukaitis (68 years) – Director 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 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.

Edward (Paul) Cass (66 years) – Lead Director

Mr. Cass has been a director of the Company since 2016 and is a member of the Audit Committee and the Compensation 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 (Retired) in British Columbia, and he also holds an MBA from Simon Fraser University.

Laura Roach (51 years) - Director

Ms. Roach has been a director of the Company since 2016 and is a member of the Compensation Committee and Chair and member of the Corporate Governance and Nominating Committee. 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 BS from the University of Arizona.

Jesse V. Crews (70 years) – Director

Mr. Crews has been a director of the Company since 2018 and is a member of the Corporate Governance and Nominating Committee. Mr. Crews was the Chief Investment Officer of TILC up until February 15, 2022 when he was appointed Senior Adviser to TILC. Mr. Crews joined TILC in August 2011. During his tenure as Chief Investment Officer, Mr. Crews was responsible 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 Master’s in Business Administration from the University of Virginia and a Bachelor of Arts degree in Economics from Yale University.

Frank Busch (44 years) – Director

As Director of Economic Development, Strategies North Inc., Mr. Busch is responsible for building and maintaining relationships with First Nations and providing information and advice to First Nation Councils, Staff and Membership that increases awareness of access to the Capital Markets, Private Equity & Debt Financing, Investment Strategy, as well as Financial Education. 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 Master of Liberal Arts in Extension Studies Field: Finance at Harvard.

Richard Lee (67years) – 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 NEX Exchange, a sub-exchange of the TSXV; as well as CFO of Happy Creek Minerals Inc., a company listed on the TSXV and Plantable Health Inc., which is listed on the NEO Exchange in Canada. Mr. Lee was also a director of Invictus MD Strategies Corp. from June 4, 2019 to February 25, 2020.

Amanda Smith (44 years) – Vice President Operations

Ms. Smith held the title of Operations Manager of the Company’s facility in Bonham Texas from 2016 to 2019 when she was promoted to Vice President Operations. Ms. Smith has years of experience in a complex manufacturing environment and in-depth knowledge in supply chain, production control and inventory management. Prior to joining the Company, Ms. Smith was Supply Chain Manager for REV Group, Inc. (2015 to 2016), an American manufacturer of specialty vehicles including ambulances, buses, firefighting apparatus, and recreational vehicles among others, and Caterpillar Inc. (2005 to 2015), an American company and the world’s largest manufacturer of construction equipment. During her tenure with Caterpillar Inc., Ms. Smith held various senior positions, including Project Manager, Site Purchasing Supervisor, Category Manager and MRO Purchasing Supervisor. Ms. Smith received her Bachelor of Arts from Austin College, Sherman, Texas, in 2001 and her Doctor of Jurisprudence from Southern Methodist University in 2004. Ms. Smith holds certifications in CPS Black Belt – Catepillar (Catepillar Production Systems), ASCM – APICS CPIM – Planning Management, APICS Certified Supply Chain Professional, CPP – Certified Professional Purchasing, TIP Leader (Toyota Way), Six Sigma Blackbelt and an Executive Certificate in Corporate Governance. Ms. Smith is a member of the League of Railway Women.

Chris Stewart (45 years) – President KIQ X Industries Inc.

Mr. Stewart brings a vast expertise in market and business development that extend from environmental projects in the energy and construction sectors to new product launches in consumer markets. In the last 20 years, Mr. Stewart has consulted in the tourism, transportation, construction and consumer food industries to guide or support in M&A initiatives as well as to maximizing value and opportunities for divestiture strategies. Mr. Stewart received his Bachelor of Business Administration with Distinction from University of British Columbia Okanagan and was awarded top honours for his graduation project for the application of leading-edge pattern-recognition AI analysis to guide high-level HR strategy development for international company BTI Travel Corp. Mr. Stewart holds three real estate certifications from UBC’s Sauder School of Business as well as a Management Certificate from Harvard Business School. Mr. Stewart was named President of Kelso’s wholly owned subsidiary KIQ X Industries Inc. on January 20, 2021.

Family Relationships

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

B. Compensation

During Fiscal 2022, 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, 2022				
	Salary (\$)	Option-based Awards (\$)	Share-Based Awards (\$)	All other compensation (\$)	Total compensation (\$)
James R. Bond <i>Director, President and CEO</i>	240,001	N/A	18,074	4,000	262,075
Peter Hughes, <i>Director</i>	N/A	N/A	10,907	36,625	47,532
Anthony (Tony) Andrukaitis, <i>Director and COO</i>	240,001	N/A	18,074	4,000	262,075
Edward (Paul) Cass, <i>Director</i>	N/A	N/A	9,037	45,075	54,112
Laura Roach, <i>Director</i>	N/A	N/A	9,037	30,375	39,412
Jesse V. Crews, <i>Director</i>	N/A	N/A	9,037	29,125	38,162
Frank Busch, <i>Director</i>	N/A	N/A	9,037	31,800	40,837
Richard Lee, <i>CFO</i>	240,001	N/A	18,074	4,000	262,075
Chris Stewart, <i>President, KIQ X Industries Inc.</i>	140,000	N/A	18,074	4,000	162,074

Management Agreements

On July 1, 2020, the Company and Bondwest Enterprises Inc., a private company 100% owned and controlled by Mr. Bond (“**Bondwest**”) entered into a Professional Services Agreement expiring on June 30, 2023, unless extended thereafter for further 1-year terms, subject to the approval of the Board (the “**CEO PSA**”). Under the terms of the CEO PSA, Bondwest received a base fee of US \$20,000 per month (the “Base Fee”) or US \$240,000 annually during the initial 3-year term with no escalation provision. The CEO PSA also provides that Bondwest is also eligible to receive an annual performance bonus not to exceed the equivalent of one year’s Base Fee. 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 provides that Bondwest shall be entitled to an annual stock option grant in accordance with the framework for option grants adopted by the Company, as amended from time to time, and includes a severance clause of equal to 24 months Base Fee in the event of termination without cause or a change of control in the Company.

On July 1, 2020, the Company and Kitchener Holdings Corp. (“**Kitchener**”) a private company 100% owned and controlled by Mr. Lee entered into a Professional Services Agreement expiring on June 30, 2023, unless extended thereafter for further 1-year terms, subject to the approval of the Board (the “**CFO PSA**”). Under the terms of the CFO PSA, Kitchener received a base fee of US \$20,000 per month (the “Base Fee”) or US \$240,000 annually during the initial 3-year term with no escalation provision. The CFO PSA also provides that Kitchener is also eligible to receive an annual performance bonus not to exceed the equivalent of one year’s Base Fee. 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 provides that Kitchener shall be entitled to an annual stock option grant in accordance with the framework for option grants adopted by the Corporation, as amended from time to time, and includes a severance clause of equal to 24 months Base Fee in the event of termination without cause or a change of control in the Corporation.

On July 1, 2020, the Company and Mr. Anthony Andrukaitis entered into a Professional Services Agreement expiring on June 30, 2023, unless extended thereafter for further 1-year terms, subject to the approval of the Board (the “**COO PSA**”). Under the terms of the COO PSA, Mr. Andrukaitis received a base fee of US \$20,000 per month

(the “**Base Fee**”) or US \$240,000 annually during the initial 3-year term with no escalation provision. The COO PSA also provides that Mr. Andrukaitis is also eligible to receive an annual performance bonus not to exceed the equivalent of one year’s Base Fee. 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 provides that Mr. Andrukaitis shall be entitled to an annual stock option grant in accordance with the framework for option grants adopted by the Company, as amended from time to time, and includes a severance clause of equal to 24 months Base Fee in the event of termination without cause or a change of control in the Company.

Outstanding share-based awards and option-based awards

The following table sets forth option-based and share-based awards for each of the directors and officers of the Company outstanding as at the year ended December 31, 2022. There were no exercises of compensation securities (Stock Options) during Fiscal 2022, including those held by directors and officers of the Company. A total of 118,345 RSUs vested during Fiscal 2022 of which 63,339 were awarded to directors and officers of the Company.

Name	Option-Based Awards				Share-Based (RSUs) Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (US\$)	Option Expiration Date	Value of Unexercised In-the-money Options ⁽¹⁾ (US\$)	Number of Shares or Units that have not Vested (#)	Market or Payout Value of Share-Based Awards that have not Vested ⁽²⁾ (US\$)	Market or Payout Value of Vested Share-based awards not paid out or distributed ⁽²⁾ (US\$)
James R. Bond <i>Director, President and Chief Executive Officer</i>	100,000	0.50	August 20, 2023	Nil	26,666 ⁽³⁾	Nil	Nil
	100,000	0.78	August 19,2024	Nil	40,000 ⁽⁴⁾		
	100,000	0.75	August 18, 2025	Nil			
Peter Hughes <i>Director</i>	50,000	0.50	August 23, 2023	Nil	13,333 ⁽³⁾	Nil	Nil
	50,000	0.78	August 19,2024	Nil	20,000 ⁽⁴⁾		
	50,000	0.75	August 18, 2025	Nil			
Anthony (Tony) Andrukaitis <i>Director, Chief Operating Officer</i>	100,000	0.50	August 23, 2023	Nil	26,666 ⁽³⁾	Nil	Nil
	100,000	0.78	August 19,2024	Nil	40,000 ⁽⁴⁾		
	100,000	0.75	August 18, 2025	Nil			
Edward (Paul) Cass <i>Director</i>	50,000	0.50	August 23, 2023	Nil	13,333 ⁽³⁾	Nil	Nil
	50,000	0.78	August 19,2024	Nil	20,000 ⁽⁴⁾		
	50,000	0.75	August 18, 2025	Nil			
Laura Roach <i>Director</i>	50,000	0.50	August 23, 2023	Nil	13,333 ⁽³⁾	Nil	Nil
	50,000	0.78	August 19,2024	Nil	20,000 ⁽⁴⁾		
	50,000	0.75	August 18, 2025	Nil			
Jesse V. Crews <i>Director</i>	200,000	0.57	April 17, 2023	Nil	13,333 ⁽³⁾	Nil	Nil
	50,000	0.50	August 23, 2023	Nil	20,000 ⁽⁴⁾		
	50,000	0.78	August 19, 2024	Nil			
	50,000	0.75	August 18, 2025	Nil			
Frank Busch <i>Director</i>	200,000	0.76	February 11, 2025	Nil	13,333 ⁽³⁾	Nil	Nil
	50,000	0.75	August 18, 2025	Nil	20,000 ⁽⁴⁾		
Richard Lee <i>Chief Financial Officer</i>	100,000	0.50	August 20, 2023	Nil	26,666 ⁽³⁾	Nil	Nil
	100,000	0.78	August 19,2024	Nil	40,000 ⁽⁴⁾		
	100,000	0.75	August 18, 2025	Nil			
Amanda Smith <i>Vice President Operations</i>	25,000	0.50	August 20, 2023	Nil	6,666 ⁽³⁾	Nil	Nil
	25,000	0.75	August 18, 2025	Nil	50,000 ⁽⁴⁾		
Chris Stewart <i>President, KIQ X Industries Inc.</i>	75,000	0.78	August 19, 2024	Nil	26,666 ⁽³⁾	Nil	Nil
	25,000	0.75	August 18, 2025	Nil	50,000 ⁽⁴⁾		

⁽¹⁾ In-the-Money Options are those where the market value of the underlying securities as at the end of the most recent fiscal year end exceeds the option exercise price. Calculated based on the difference between the market value of the securities underlying the options as at December 30, 2022 (being US\$0.30) and the exercise price of the option. The remaining outstanding options may never be exercised and actual gains, if any, on exercise will depend on the value of the Common Shares on the date of exercise.

⁽²⁾ Calculated using the closing price of the Common Shares on the NYSE American on December 30, 2022 of US\$0.30 per share.

⁽³⁾ These RSUs were awarded on October 27, 2021 pursuant to the Corporation’s RSU Plan. These RSUs vest as to one-third on the first anniversary date; one-third after the second anniversary date and one-third on the third anniversary date, i.e., on October 27, 2022, October 27, 2023 and October 27, 2024, Common Shares issuable upon payout of any vested shares were and will be issued at a deemed price of US\$0.92 per share.

⁽⁴⁾ These RSUs were awarded on September 27, 2022 pursuant to the Corporation's RSU Plan. The RSUs vest as to one-third on the first anniversary date; one-third after the second anniversary date and one-third on the third anniversary date, i.e., on September 27, 2023, September 27, 2024 and September 27, 2025.

Common Shares issuable upon payout of any vested shares will be issued at a deemed price of US\$0.31 per share.

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 "**Stock Option Plan**"). The purpose of the Stock 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 Stock 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 Stock Option Plan and shall again be available for grant under the Stock Option Plan. In addition, the aggregate number of common shares which may be reserved for issuance pursuant to the Stock Option Plan or any other share compensation arrangement (pre-existing or otherwise) to any one participant under the Stock 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 Stock 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 Stock 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 Stock 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 Stock Option Plan shall not exceed ten years from the date of grant, and all options granted under the Stock 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 Company's directors and senior management are eligible to participate in the Stock Option Plan. The Company does not provide any financial assistance to participants in order to facilitate the purchase of common shares under the Stock Option Plan. The Board of Directors can amend the terms of the Stock 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.

As at December 31, 2022, there were a total of 2,560,000 options outstanding under the Stock Option Plan. During Fiscal 2022, a total of 710,000 options expired (unexercised), no options were granted, and no options were

exercised. There was no re-pricing of stock options under the stock option plan or otherwise during the Company's completed financial year ended December 31, 2022.

Restricted Share Unit Plan

The Board of Directors (the "**Board**") adopted the Restricted Share Unit Plan (the "**RSU Plan**") for the benefit of the Company's employees, directors and consultants. The RSU Plan has been established to assist the Company in the recruitment and retention of highly qualified employees, directors and eligible consultants by providing a means to reward performance, to motivate participants under the RSU Plan to achieve important corporate and personal objectives and, through the proposed issuance by the Company of Common Shares under the RSU Plan, to better align the interests of participants with the long-term interests of the Company's shareholders (the "**Shareholders**").

The Board intends to use Restricted Share Units ("**RSUs**") issued under the RSU Plan, as well as options issued under the Stock Option Plan, as part of the Company's overall executive compensation plan. Since the value of RSUs increase or decrease with the price of the Common Shares, RSUs reflect a philosophy of aligning the interests of executives with those of the Shareholders by tying executive compensation to share price performance. In addition, RSUs assist in the retention of qualified and experienced executives by rewarding those individuals who make a long-term commitment.

Eligible Participants: The RSU Plan is administered by the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board (the "**Committee**"). Employees, directors and eligible consultants of the Company and its designated subsidiaries are eligible to participate in the RSU Plan. In accordance with the terms of the RSU Plan, the Company, under the authority of the Board of Directors through the Committee, will approve those employees, directors and eligible consultants who are entitled to receive RSUs and the number of RSUs to be awarded to each participant. RSUs awarded to participants are credited to them by means of an entry in a notional account in their favour on the books of the Company. Each RSU awarded conditionally entitles the participant to receive one Common Share (or the cash equivalent) upon attainment of the RSU vesting criteria.

Vesting: The vesting of RSUs is conditional upon the expiry of a time-based or performance-based vesting period. The duration of the vesting period and other vesting terms applicable to the grant of the RSUs shall be determined at the time of the grant by the Committee. Once the RSUs vest, the participant is entitled to receive the equivalent number of underlying Common Shares or cash equal to the Market Value of the equivalent number of Common Shares. The vested RSUs may be settled through the issuance of Common Shares from treasury by the delivery of Common Shares purchased in the open market, in cash or in any combination of the foregoing (at the discretion of the Company). If settled in cash, the amount shall be equal to the number of Common Shares in respect of which the participant is entitled multiplied by the Market Value of a Common Share on the payout date. Market Value per share is defined in the RSU Plan and means, subject to the exceptions, if any, prescribed by the Exchange from time to time (i) the last closing price of the Company's Common Shares before the issuance of the RSUs; (ii) if the Company's Common Shares trade on the TSX or another stock exchange where the majority of the trading volume and value of the shares occurs, the price is calculated based on a reasonable pre-determined formula, which formula is accepted by the Exchange and is based on a volume weighted average trading price or average daily high and low board lot trading price for the five trading days prior to the issuance of the RSUs. In the event that the Common Shares are not listed and posted for trading on any stock exchange, the Share Price shall be the Share Price as determined by the Board in its discretion, acting reasonably and in good faith. Fractional Common Shares will not be issued and any fractional entitlements will be rounded down to the nearest whole number.

The RSUs may be settled on the payout date, which shall be the third anniversary of the date of the grant or such other date as the Committee may determine at the time of the grant, which in any event shall be no later than the expiry date for such RSUs. The expiry date of RSUs is the date determined by the Company for such purpose for such grant, which date shall be no later than the date which is one year after the Participant's Termination Date and shall, in all cases, be in compliance with the requirements pertaining to the exception to the application of the salary deferral arrangement rules in paragraph 248(1)(k) of the Income Tax Act (Canada), as such section may be amended or re-enacted from time to time.

Maximum Number of Common Shares Issued: (a) shall not exceed 5% of the total number of issued and outstanding Common Shares on a non-diluted basis; and (b) in combination with the aggregate number of Common Shares which may be issuable under any and all of the Company's Security Based Compensation Arrangements, as defined

in the RSU Plan, in existence from time to time, shall not exceed 10% of the total number of issued and outstanding Common Shares on a non-diluted basis, or such other number of Common Shares as shall have been duly approved by the Board, by the Exchange and by the Shareholders.

Participation Limits: The number of Common Shares which may be reserved for issuance under the RSU Plan within anyone-year period: (a) to any one Participant, shall not exceed 5% of the total number of issued and outstanding Common Shares on the Grant Date on a non-diluted basis; (b) under the RSU Plan and any other of the Company's Security Based Compensation Arrangements (i) the aggregate number of Common Shares issued to Insiders, within any one year period; and (ii) the aggregate number of Common Shares issuable to Insiders at any time, shall not exceed 10% of the issued and outstanding Common Shares; and (c) to any one Consultant shall not exceed 2% in the aggregate of the total number of issued and outstanding Common Shares on the Grant Date on a non-diluted basis.

Cessation of Entitlement: Unless otherwise determined by the Company in accordance with the RSU Plan, RSUs which have not vested on a participant's termination date shall terminate and be forfeited. If a participant who is an employee ceases to be an employee as a result of termination of employment without cause, in such case, at the Company's discretion, or for good reason (unless otherwise provided in the applicable Grant Agreement), all or a portion of such participant's RSUs may be permitted to continue to vest, in accordance with their terms, during any statutory or common law severance period or any period of reasonable notice required by law or as otherwise may be determined by the Company in its sole discretion. All forfeited RSUs are available for future grants.

Transferability: RSUs are not assignable or transferable other than by will or the laws of descent and distribution.

Amendments to the RSU Plan: The Board reserves the right, in its sole discretion, to amend, suspend or terminate the RSU Plan or any portion thereof at any time, in accordance with Applicable Law, without obtaining the approval of Shareholders, unless required by the policies of the Exchange. Notwithstanding the foregoing, the Company will be required to obtain disinterested Shareholder approval for any amendment related to: (a) the number or percentage of issued and outstanding Common Shares available for grant under the Plan (other than by virtue of adjustments pursuant to Section 13.1 of the RSU Plan); (b) a change in the method of calculation of the payout of RSUs held by Participants; and (c) an extension of the Payout Date of RSUs held by Participants.

The Board may, without notice, at any time and from time to time, without shareholder approval, amend the RSU Plan or any provisions thereof in such manner as the Board, in its sole discretion, determines appropriate including, without limitation: (a) amendments to the terms and conditions of the RSU Plan necessary to ensure that the RSU Plan complies with the applicable regulatory requirements, including the rules of the Exchange, in place from time to time; (b) amendments to the provisions of the RSU Plan respecting administration of the RSU Plan and eligibility for participation under the RSU Plan; (c) amendments to the provisions of the RSU Plan respecting the terms and conditions on which RSUs may be granted pursuant to the RSU Plan, including the provisions relating to the payment of the RSUs; (d) amendments necessary to suspend or terminate the RSU Plan; (e) amendments to the RSU Plan that are of a "housekeeping" nature; and (f) any other amendment, fundamental or otherwise, not requiring Shareholder approval under Applicable Laws or the applicable rules of the Exchange. Provided, however, that no such amendment of the RSU Plan may be made without the consent of each affected Participant in the RSU Plan if such amendment would adversely affect the rights of such affected Participant(s) under the RSU Plan.

As at December 31, 2022 there were 645,000 RSU's outstanding. A total of 407,500 RSUs were awarded during Fiscal 2022 and a total of 118,345 RSUs vested during Fiscal 2022.

Non-Employee Directors Deferred Share Unit Plan

The Board has adopted the Non-Employee Directors Deferred Share Unit Plan (the "**DSU Plan**") for the benefit of the Company's non-executive directors of which currently there are five. The DSU Plan has been established to assist the Company in the recruitment and retention of qualified persons to serve on the Board and, through the proposed issuance by the Company of Common Shares under the DSU Plan, to promote better alignment of the interests of directors and the long-term interests of Shareholders. The Board intends to use the Deferred Share Units ("**DSUs**") issued under the DSU Plan, as well as options issued under the Stock Option Plan and RSUs issued under the RSU Plan, if any, as part of the Company's overall director compensation plan. Since the value of DSUs

increase or decrease with the price of the Common Shares, DSUs reflect a philosophy of aligning the interests of directors with those of the Shareholders by tying compensation to share price performance.

As at December 31, 2022, there were no DSUs outstanding.

Administration of Plan: The DSU Plan provides that non-executive directors may elect to receive up to 50% of their annual compensation amount (the “**Annual Base Compensation**”) in DSUs. A DSU is a unit credited to a participant by way of a bookkeeping entry in the books of the Company, the value of which is equivalent to a Common Share. All DSUs paid with respect to Annual Base Compensation will be credited to the director by means of an entry in a notional account in their favour on the books of the Company (a “DSU Account”) when such Annual Base Compensation is payable. The director’s DSU Account will be credited with the number of DSUs calculated to the nearest thousandth of a DSU, determined by dividing the dollar amount of compensation payable in DSUs on the payment date by the Share Price of a Common Share at the time. Share Price is defined in the DSU Plan and means subject to the exceptions, if any, prescribed by the Exchange from time to time (i) the last closing price of the Company’s Common Shares before the issuance of the Share Units; (ii) if the Company’s Common Shares trade on the TSX or another stock exchange where the majority of the trading volume and value of the shares occurs, the price is calculated based on a reasonable pre-determined formula, which formula is accepted by the Exchange and is based on a volume weighted average trading price or average daily high and low board lot trading price for the five trading days prior to the issuance of the DSUs. In the event that the Common Shares are not listed and posted for trading on any stock exchange, the Share Price shall be the Share Price as determined by the Board in its discretion, acting reasonably and in good faith. Fractional Common Shares will not be issued and any fractional entitlements will be rounded down to the nearest whole number.

Additionally, subject to certain participation limits prescribed by the Exchange, the Board may award such number of DSUs to a non-executive director as the Board deems advisable to provide the director with appropriate equity-based compensation for the services he or she renders to the Company. The Board shall determine the date on which such DSUs may be granted and the date as of which such DSUs shall be credited to the director’s DSU Account. The Company and a director who receives such an additional award of DSUs shall enter into a DSU award agreement to evidence the award and the terms applicable thereto.

Generally, a participant in the DSU Plan shall be entitled to redeem his or her DSUs during the period commencing on the business day immediately following the date upon which the non-executive director ceases to hold any position as a director of the Company and its subsidiaries and is no longer otherwise employed by the Company or its subsidiaries, including in the event of death of the participant (the “Termination Date”) and ending on the 90th day following the Termination Date. Redemptions under the DSU Plan may be in Common Shares issued from treasury subject to the Shareholder approval being sought at this Meeting, may be purchased by the Company on the open market for delivery to the director, may be settled in cash or any combination of the foregoing.

Maximum Number of Common Shares Issued: (a) shall not exceed 2% of the total number of issued and outstanding Common Shares on a non-diluted basis; and (b) in combination with the aggregate number of Common Shares which may be issuable under any and all of the Company’s Security Based Compensation Arrangements, as defined in the DSU Plan, in existence from time to time, shall not exceed 10% of the total number of issued and outstanding Common Shares on a non-diluted basis, or such other number of Common Shares as shall have been duly approved by the Board, by the Exchange and by the Shareholders.

Participation Limits: The number of Common Shares which may be reserved for issuance under the DSU Plan within any one-year period: (a) to any one Participant, shall not exceed 2% of the total number of issued and outstanding Common Shares on the Grant Date on a non-diluted basis; and (b) under the DSU Plan and any other of the Company’s Security Based Compensation Arrangements (i) the aggregate number of Common Shares issued to Insiders, within any one year period; and (ii) the aggregate number of Common Shares issuable to Insiders at any time, shall not exceed 10% of the issued and outstanding Common Shares.

Transferability: No right to receive payment of deferred compensation or retirement awards shall be transferable or assignable by any participant under the DSU Plan except by will or laws of descent and distribution.

Amendments to the DSU Plan: The Board may at any time, and from time to time, and without shareholder approval, amend any provision of the DSU Plan, subject to any regulatory or stock exchange requirement at the time

of such amendment, including, without limitation: (a) amendments to the terms and conditions of the DSU Plan necessary to ensure that the Plan complies with the applicable regulatory requirements, including the rules of the Exchange, in place from time to time; (b) amendments to the provisions of the DSU Plan respecting administration of the DSU Plan and eligibility for participation under the DSU Plan; (c) amendments to the provisions of the DSU Plan respecting the terms and conditions on which DSUs may be granted pursuant to the DSU Plan, including the provisions relating to the payment of the DSUs; (d) amendments necessary to suspend or terminate the DSU Plan; (e) amendments to the DSU Plan that are of a “housekeeping” nature; and (f) any other amendment, fundamental or otherwise, not requiring shareholder approval under applicable laws or the applicable rules of the Exchange; provided, however, that no such amendment of the DSU Plan may be made without the consent of each affected participant if such amendment would adversely affect the rights of such affected participant(s) under the DSU Plan.

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 2022.

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 period January 1 to June 1, 2022, the members of the Audit Committee were Messrs. Paul Cass (Chair), Jesse V. Crews and Frank Busch. Since June 2, 2022 following the Company’s annual general meeting, the members of the Committee have been Messrs. Frank Busch (Chair), Paul Cass and Ms. Laura Roach. As defined in National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrator all members of the Committee have been and 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. 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. 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 National Policy 58-201 "Corporate Governance Guidelines" and the applicable NYSE American rules. During the period January 1 to June 1, 2022, the members of the Compensation Committee were Messrs. Peter Hughes (Chair), Paul Cass and Ms. Laura Roach. Since June 2, 2022 following the Company's annual general meeting, the members of the Committee have been Messrs. Paul Cass (Chair), Jesse V. Crews and Peter Hughes. At all times, all members of the Committee have been and are independent.

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 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. 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 National Policy 58-201 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, 2022, the members of the Corporate Governance and Nominating Committee were Messrs. Jesse V. Crews (Chair) and Frank Busch and Ms. Laura Roach. Mr. Jesse V. Crews chaired the

Committee until March 2, 2023 and Ms. Laura Roach has been Chair of the Committee since her appointment on March 2, 2023.

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, 2022, the Company had 38 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 West Kelowna, British Columbia. There has been no significant change in the number of employees since December 31, 2019. At the date of this filing, the Company's employees are not unionized, and all employees are full-time.

E. Share Ownership

As of December 31, 2022, 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		Stock Options Held	Restricted Share Units Held
	# of Shares	% of Class ⁽¹⁾		
James R. Bond <i>Director, President and Chief Executive Officer</i>	1,368,300 ⁽²⁾	2.52	300,000	66,666
Peter Hughes <i>Director</i>	16,000	0.029	150,000	33,333
Anthony (Tony) Andrukaitis <i>Director, Chief Operating Officer</i>	264,000	0.49	300,000	66,666
Edward (Paul) Cass <i>Director</i>	79,000	0.15	150,000	33,333
Laura Roach <i>Director</i>	56,390	0.10	150,000	33,333
Jesse V. Crews <i>Director</i>	122,125	0.23	350,000	33,333
Frank Busch <i>Director</i>	20,000	0.037	250,000	33,333
Richard Lee <i>Chief Financial Officer</i>	144,500	0.27	300,000	66,666
Amanda Smith <i>Vice President Operations</i>	0	0	50,000	56,666
Chris Stewart <i>President, KIQ X Industries Inc.</i>	27,000	0.05	100,000	76,666

⁽¹⁾ Based on 54,320,086 common shares issued and outstanding as at December 31, 2022.

⁽²⁾ 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

As at December 31, 2022, the Company is aware that Tocqueville Asset Management LP previously reported on their Schedule 13G that they held 3,389,740 common shares/voting rights (6.2%) of the Company. To the best of the Company's knowledge, there are no other persons or companies 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, 2022, the registrar and transfer agent for the Company reported that there were 54,320,086 shares of the Company issued and outstanding. Of these, 47,262,689 were registered to Canadian residents (7 recorded shareholders), 7,045,969 shares were registered to residents of the United States (20 recorded shareholders) and 11,428,000 shares 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 2022, management fees for the Company were \$720,003 (Fiscal 2021 - \$720,923; 2020- \$641,845). As at December 31, 2022, the amount due to related parties (which are unsecured and have no interest or specific terms of payments) was \$Nil (Fiscal 2021 - \$Nil; Fiscal 2020 - \$28,423). Management bonuses of \$Nil were earned in Fiscal 2022 (Fiscal 2021 - \$Nil; Fiscal 2020 - \$28,423); \$Nil related to accrued Directors fees (Fiscal 2021 - \$Nil; Fiscal 2020- \$Nil) 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 2022, Fiscal 2021 and Fiscal 2020 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 2022 were \$105,605 (Fiscal 2021 - \$104,250; Fiscal 2020-\$335,155). RSU payments for Fiscal 2022 were \$23,000 (Fiscal 2021-\$Nil; Fiscal 2020-\$Nil). Director's fees were \$163,000 for Fiscal 2022 (Fiscal 2021-\$163,000; Fiscal 2020-\$163,000).

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, 2022, including: report of the independent registered public accountant, Smythe LLP, Chartered Professional Accountants, comprising the consolidated statements of financial position as at December 31, 2022 and 2021, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2022, 2021 and 2020.

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

Export Sales

All sales are domestic to the US.

Legal Proceedings

During the three months ended March 31, 2021 based on R&D testing results the Company terminated the Technology Development Agreement with G&J Technologies Inc. and Gebhard Charles Wager who were the service provider and contractor engaged for the KXI Suspension System, including the consulting agreement for \$10,000 per month. According to the terms of the Technology Development Agreement (TDA) the Company will still maintain intellectual property rights acquired under the TDA. Kelso will still be liable for a 2.5% royalty to the service provider or their assigns should Kelso use their technologies in a commercially sold product. The terms of the termination are currently being disputed by the service provider and inventor. The dispute has entered an arbitration process to provide a final legal resolution pursuant to the terms of the TDA. The Company anticipates that it will have to monetarily settle these claims but the amount is undetermined at this time.

Other than mentioned above there have not been any other 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, 2022 that has not been disclosed in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Price History

Full Financial Years (five most recent full financial years)

The annual high and low market prices of 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 ⁽¹⁾ (Canadian dollars, \$)		NYSEAmerican ⁽²⁾ (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2022	0.72	0.28	0.58	0.21
December 31, 2021	1.85	0.54	1.48	0.42
December 31, 2020	1.32	0.55	1.00	0.45
December 31, 2019	2.19	0.55	1.66	0.41
December 31, 2018	1.25	0.46	0.96	0.3591

⁽¹⁾ The common shares of the Company were listed for trading on the TSX on May 22, 2014 prior to which they traded on the TSXV.

⁽²⁾ The common shares of the Company were listed for trading on the NYSE 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, \$)		NYSEAmerican (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2022	0.43	0.28	0.32	0.21
September 30, 2022	0.60	0.38	0.40	0.29
June 30, 2022	0.61	0.38	0.49	0.29
March 31, 2021	0.72	0.52	0.58	0.40
December 31, 2021	1.23	0.54	1.02	0.42
September 30, 2021	0.89	0.67	0.73	0.52
June 30, 2021	1.42	0.73	0.82	0.59
March 31, 2021	1.85	0.68	1.48	0.53

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 End/Period	TSX (Canadian dollars, \$)		NYSEAmerican (U.S. dollars, \$)	
	High	Low	High	Low
March 1-31, 2023	0.58	0.36	0.44	0.27
February 28, 2023	0.50	0.37	0.36	0.27
January 31, 2023	0.42	0.37	0.33	0.27
December 31, 2022	0.43	0.33	0.32	0.21
November 30, 2022	0.38	0.28	0.29	0.21
October 31, 2022	0.43	0.35	0.31	0.25

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, 8th Floor, Toronto, Ontario, Canada M5J 2Y1, Telephone 1 800 564 6253 (toll free in Canada and the United States) between the hours of 8:30 a.m. and 8:00 p.m. Eastern Time or 514 982 7555 (international direct dial).

B. Plan of Distribution

Not applicable.

C. Markets

The Common Shares are publicly traded on the TSX under the symbol “KLS”, and on the NYSE 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 25, 2020. A copy of the Stock Option Plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at www.sec.gov in the United States.
4. The Company has a Restricted Share Unit Plan which was approved by the shareholders of the Company on June 3, 2021. A copy of the RSU Plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at www.sec.gov in the United States.
5. The Company has a Non-Employee Directors Deferred Share Unit Plan which was approved by the shareholders of the Company on June 2, 2021. A copy of the Deferred Share Unit Plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at www.sec.gov in the United States.

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 in Canada, on EDGAR at www.sec.gov in the United States and on the Company’s website at www.kelsotech.com. Copies of such documents may also be viewed by appointment during normal business hours at 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 \$2,712,446 at December 31, 2022 (December 31, 2021- \$3,377,464).

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 \$1,381,979 at December 31, 2022 (December 31, 2021- \$807,009).

The Company's concentration of credit risk for accounts receivable at December 31, 2022 with respect to Customer A is \$224,954 (2021- \$93,865); Customer B is \$436,400 (2021- \$47,250) and Customer C is \$148,270 (2021- \$155,520). The Company has an allowance for doubtful accounts of \$Nil at December 31, 2022 (2021- \$2,000).

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.

As at December 31, 2022, the Company has cash in the amount of \$2,712,446 (December 31, 2021 - \$3,377,464) and accounts receivable of \$1,381,979 (December 31, 2021 - \$807,009) to settle current liabilities of \$1,330,821 (December 31, 2021 - \$1,210,356) with the following due dates; trade accounts payable of \$1,184,463 (December 31, 2021 - \$1,118,573) are due within three months; income tax payable of \$30,626 (December 31, 2021 - \$Nil), current portion of lease liability of \$112,067 (December 31, 2021 - \$91,783) and the current portion of the derivative liability of \$3,665 (2021-\$Nil). All payables are due within a year. The amount of the Company's remaining undiscounted contractual maturities for the lease liabilities is approximately \$164,469 (December 31, 2021 - \$307,456) which are due between one to five years.

(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, 2022 and December 31, 2021, the Company's net exposure to foreign currency risk was as follows (in US):

	December 31, 2022	December 31, 2021
Net (liabilities)	\$ (61,971)	\$ 1,210,161

Based on the above, assuming all other variables remain constant, a 7% (2021 -1%) weakening or strengthening of the USD against the CAD would result in approximately \$4,338 (December 31, 2021- \$12,102) foreign exchange loss or gain in the consolidated statements of operations and comprehensive income (loss).

(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. 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, 2022, 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 (COSO2013)*. 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 December 31, 2022.

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 Paul Cass 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 and restated by the Board of Directors on March 22, 2023, that applies to all of the Company's directors and employees, including the Company's principal executive officer and principal financial officer. The full text of the Company's Code of Business Conduct and Ethics is available under the Company's profile on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the United States and on the Company's website at www.kelsotech.com.

C. Principal Accountant Fees and Services

Audit Fees. This category includes the fees for the audit of 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, 2022, and the fiscal year ended December 31, 2021:

	December 31, 2022 (CAD\$)	December 31, 2021 (CAD\$)
Audit Fees	105,000	120,000
Audit-Related Fees	7,000	6,500
Tax Fees	10,000	11,000
All Other Fees	N/A	N/A
Total Fees	122,000	137,500

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.

I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

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, 2022 and 2021, and the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2022, 2021 and 2020.

Item 18. Financial Statements

See “Item 17. Financial Statements”.

Item 19. Exhibits –

Exhibits Exhibit No.	Description
(3)	Articles of Incorporation and Bylaws
3.01	Certificate of Incorporation ⁽¹⁾
3.01a	Certificate of Name Change ⁽¹⁾
3.01b	Notice of Articles ⁽¹⁾
3.01c	Articles ⁽¹⁾
(4)	Securityholder Rights
4.01	Shareholders Rights Plan dated February 3, 2011 ⁽¹⁾
(10)	Material Contracts
10.01	Professional Services Agreement with Bondwest Enterprises Inc. dated July 1, 2020
10.02	Professional Services Agreement with Kitchener Holdings Corp. dated July 1, 2020
10.03	Professional Services Agreement with Anthony Andrukaitis dated July 1, 2020
10.04	Stock Option Plan dated June 25, 2020
10.05	Agreement with Barry LaCroix for Patent No. US 7,104,722 B2 dated May 26, 2010 ⁽¹⁾
10.06	Notice of Recordation of Assignment Document for US Patent No. 7104722 ⁽¹⁾
10.07	Notice of Recordation of Assignment Document for US Patent No. 5855225 ⁽¹⁾
10.08	Restricted Share Unit Plan dated June 3, 2021
10.09	Non-Employee Directors Deferred Share Unit Plan dated June 3, 2021
10.10	2022 Sustainability Report
11*	Code of Business Conduct and Ethics dated March 22, 2023
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibits Exhibit No.	Description
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(21)	Subsidiaries
21.01	List of Subsidiaries
(99)	Additional Exhibits
99.1	Audited annual financial statements for the year ended December 31, 2018 ⁽²⁾
99.2	Audited annual financial statements for the year ended December 31, 2019 ⁽³⁾
99.3	Audited annual financial statements for the year ended December 31, 2020 ⁽⁴⁾
99.4	Audited annual financial statements for the year ended December 31, 2021 ⁽⁵⁾
99.5*	Audited annual financial statements for the year ended December 31, 2022 ⁽⁶⁾

*Filed herewith

- ⁽¹⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed on August 29, 2013.
- ⁽²⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed on April 2, 2019.
- ⁽³⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 18, 2020.
- ⁽⁴⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 17, 2021.
- ⁽⁵⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 30, 2022.
- ⁽⁶⁾ Incorporated by reference from the applicable exhibit to the Company's Form 6-K filed March 31, 2023.

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 3, 2023

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

Date: April 3, 2023