



## MANAGEMENT INFORMATION CIRCULAR INTRODUCTION

**This Management Information Circular (the “Proxy Circular”) accompanies the Notice of Annual General and Special Meeting given to the holders (the “Shareholders”) of common shares (the “Common Shares”) of Kelso Technologies Inc. (“Kelso” or the “Corporation”) in respect of the annual general and special meeting (the “Meeting”) of Shareholders to be held on Thursday, June 3, 2021 at the offices of Clark Wilson LP, Suite 900, 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1 on Thursday, June 3, 2021, at the hour of 11:00 a.m. (PDT).**

The contents and the sending of this Proxy Circular have been approved by the directors of the Corporation.

Figures in this Proxy Circular are expressed in United States dollars (“US\$”) or in Canadian dollars (“C\$”), unless otherwise stated. As at December 31, 2020 the value of the Canadian dollar, based on the Bank of Canada’s daily rate of exchanges, was US\$0.7854.

### PROXIES AND VOTING RIGHTS

#### Solicitation of Proxies

The solicitation of proxies is being made on behalf of Management. Costs of the solicitation of proxies for the Meeting will be borne by the Corporation. It is expected that solicitations of proxies will be made primarily by mail but proxies may also be solicited by telephone or other personal contact by directors, officers and employees of the Corporation without special compensation. In addition to the use of mail, proxies may be solicited by personal interviews, personal delivery, telephone or any form of electronic communication or by directors, officers and employees of the Corporation who will not be directly compensated therefore. The Corporation has arranged for Intermediaries (as defined below) to forward Meeting Materials (as defined below) to Non-Registered Shareholders (as defined below) by those Intermediaries as the Registered Shareholders (as defined below) and the Corporation may reimburse the Intermediaries for their reasonable fees and disbursements in that regard.

**Only a Shareholder whose name appears on the certificate(s) representing its Common Shares (a “Registered Shareholder”) or its duly appointed proxy nominee is permitted to vote at the Meeting. A Shareholder is a non-registered Shareholder (a “Non-Registered Shareholder”) if its Common Shares are registered in the name of an intermediary, such as an investment dealer, brokerage firm, bank, trust company, trustee, custodian, administrator or other nominee, or a clearing agency in which the intermediary participates (each, an “Intermediary”). Accordingly, most Shareholders of the Corporation are Non-Registered Shareholders because the Common Shares they own are not registered in their names but are instead registered in the name of the Intermediary through which they own the Common Shares.**

More particularly, a person is a Non-Registered Shareholder in respect of Common Shares which are held on behalf of that person, but which are registered either: (a) in the name of an Intermediary that the Non-Registered Shareholder deals with in respect of the Common Shares; or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited (“CDS”)) of which the Intermediary is a participant. In Canada, the vast majority of securities are registered under the name of CDS, which acts as nominee for many Canadian brokerage firms. Common Shares so held by brokers or their nominees can only be voted (for or against resolutions) upon the instructions of the Non-Registered Shareholder. Without specific instructions, Intermediaries are prohibited from voting Common Shares held for Non-Registered Shareholders.

These proxy solicitation materials are being sent to both Registered Shareholders and Non-Registered Shareholders. If the Corporation or its agent has sent these materials directly to a Non-Registered Shareholder, such Non-Registered Shareholder's name and address and information about its holdings of Common Shares have been obtained in accordance with the requirements under applicable securities laws from the Intermediary holding the Common Shares on such Non-Registered Shareholder's behalf.

Non-Registered Shareholders who have not objected to their Intermediary disclosing certain information about them to the Corporation are referred to as non-objecting beneficial owners ("NOBOs"), whereas Non-Registered Shareholders who have objected to their Intermediary disclosing ownership information about them to the Corporation are referred to as objecting beneficial owners ("OBOs"). In accordance with National Instrument 54-101 Communication with Beneficial Owners of Securities of a Reporting Issuer ("NI 54-101"), the Corporation has elected to send the Notice of Meeting, this Proxy Circular and the related form of proxy or voting instruction form (collectively, the "Meeting Materials") indirectly to the NOBOs and to the OBOs through their Intermediaries.

## How to Vote

**Due to the public health restrictions related to the Covid-19 virus and taking into account the health and safety of our employees, Shareholders, service providers and other stakeholders, the Meeting will only be open to Registered Shareholders and duly appointed proxy holders. The Corporation asks that anyone planning to attend the Meeting in person advise the Corporate Secretary of the Corporation at [klove@kelsotech.com](mailto:klove@kelsotech.com) Further restrictions with regard to the Meeting may be implemented by the Corporation as required in accordance with applicable law. Shareholders are encouraged to vote by proxy, by mail, by telephone or on the Internet, in advance of the deadline set forth in the Proxy Circular, rather than attend the Meeting. The Corporation is not aware of any items of business to be brought before the Meeting other than those described in the Proxy Circular and there will be no management presentation on the business and operations of the Corporation at the Meeting.**

Registered Shareholders can vote their Common Shares by proxy, by mail, by telephone or on the Internet. If you vote your Common Shares by proxy by mail, completed forms of proxies must be received by the Corporation's transfer agent, Computershare Trust Company of Canada, Proxy Department, at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1. Telephone and Internet voting can also be completed 24 hours a day, 7 days a week which is noted on your proxy form. If you vote by telephone, you cannot appoint anyone other than the appointees named on the proxy form as your proxyholder. For internet voting, go to [www.investorvote.com](http://www.investorvote.com) and follow the instructions on the screen. For either telephone or internet voting, you will need your 15-digit control number which is noted on your proxy form. Duly completed forms of proxy or a vote using the telephone or over the Internet must be completed no later than by 11:00 a.m. PDT on Tuesday, June 1, 2021 or forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting or any adjournment thereof.

Non-Registered Shareholders will receive voting instructions from the Intermediary through which they hold their Common Shares. Please follow the instructions provided on your voting instruction form to vote your Common Shares.

### Registered Shareholders

The persons named in the accompanying form of proxy are nominees of the Corporation's Management. **A Shareholder has the right to appoint a person or company (who need not be a Shareholder) to attend and act for and on the Shareholder's behalf at the Meeting other than the persons designated as proxyholders in the accompanying form of proxy. To exercise this right, the Shareholder must either:**

- (a) on the accompanying form of proxy, strike out the printed names of the individuals specified as proxyholders and insert the name of the Shareholder's nominee in the blank space provided; or**
- (b) complete another proper form of proxy.**

In either case, to be valid, a proxy must be dated and signed by the Shareholder or by the Shareholder's attorney authorized in writing. In the case of a company, the proxy must be signed by a duly authorized officer of, or attorney for, the company.

The completed proxy, together with the power of attorney or other authority, if any, under which the proxy was signed, or a notarially certified copy of the power of attorney or other authority, must be delivered to Computershare Trust Company of Canada, Proxy Department, at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1 by 11:00 a.m. (Pacific time) on Tuesday, June 1, 2021, or by telephone, internet or facsimile (in accordance with the instructions provided in the form of proxy delivered herewith), by 11:00 a.m. PDT on Tuesday, June 1, 2021 or at least 48 hours (excluding Saturdays, Sundays and holidays) before the time that the Meeting is to be reconvened after any adjournment of the Meeting. The deadline for the deposit of proxies may be waived or extended by the Chair of the Meeting at the Chair's discretion without notice.

#### Non-Registered Shareholders

**Only Registered Shareholders or duly appointed proxyholders for Registered Shareholders are permitted to vote at the Meeting. Non-Registered Shareholders (whether NOBOs or OBOs) are advised that only proxies from Shareholders of record can be recognized and voted at the Meeting.**

The Intermediary holding Common Shares on behalf of a Non-Registered Shareholder is required to forward the Meeting Materials to such Non-Registered Shareholder (unless such Non-Registered Shareholder has waived its right to receive the Meeting Materials) and to seek such Non-Registered Shareholder's instructions as how to vote its Common Shares in respect of each of the matters described in this Proxy Circular to be voted on at the Meeting. Each Intermediary has its own procedures which should be carefully followed by Non-Registered Shareholders to ensure that their Common Shares are voted by the Intermediary on their behalf at the Meeting. The instructions for voting will be set out in the form of proxy or voting instruction form provided by the Intermediary. Non-Registered Shareholders should contact their Intermediary and carefully follow the voting instructions provided by such Intermediary. Alternatively, Non-Registered Shareholders who wish to vote their Common Shares in person at the Meeting may do so by appointing themselves as the proxy nominee by writing their own name in the space provided on the form of proxy or voting instruction form provided to them by the Intermediary and following the Intermediary's instructions for return of the executed form of proxy or voting instruction form.

All references to Shareholders in this Proxy Circular and the accompanying Notice of Meeting and form of proxy are to Shareholders of record at the close of business on the Record Date (as defined below) unless specifically stated otherwise.

#### Revocation of Proxies

A Shareholder who has given a proxy may revoke it at any time before the proxy is exercised:

- (a) by an instrument in writing that is:
  - (i) signed by the Shareholder, the Shareholder's legal personal representative or trustee in bankruptcy or, where the Shareholder is a company, a duly authorized officer of, or attorney for, the company; and
  - (ii) delivered to Computershare Trust Company of Canada, Proxy Department, at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1 or to the registered office of the Corporation located at Suite 900 - 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1 at any time up to and including the last business day preceding the day of the Meeting or any adjournment of the Meeting;
- (b) by sending another proxy form with a later date to Computershare Trust Company of Canada, Proxy Department, at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada M5J 2Y1 before 11:00 a.m. PDT Tuesday, June 1, 2021 or at least 48 hours (excluding Saturdays, Sundays and holidays) before any adjourned or postponed Meeting;
- (c) by attending the Meeting and notifying the Chair of the Meeting in writing prior to the commencement of the Meeting that the Shareholder has revoked its proxy; or
- (d) in any other manner provided by law.

A revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

## Voting and Exercise of Discretion by Proxyholders

A Shareholder may indicate the manner in which the persons named in the accompanying form of proxy are to vote with respect to a matter to be acted upon at the Meeting by marking the appropriate space. **The Common Shares represented by the proxy will be voted for, against, or withheld from voting in accordance with the instructions given by the Shareholder in the proxy on any ballot that may be called for.**

**If the Shareholder specifies a choice in the proxy with respect to a matter to be acted upon, then the Common Shares represented thereby will be voted for, against, or withheld from the vote on that matter accordingly. If no choice is specified in the proxy with respect to a matter to be acted upon, it is intended that the proxyholder named by Management in the accompanying form of proxy will vote the Common Shares represented by the proxy in favour of each matter identified in the proxy and for the nominees for election to the Corporation's Board of Directors and auditor.**

The accompanying form of proxy also confers discretionary authority upon the named proxyholder with respect to amendments or variations to the matters identified in the accompanying Notice of Meeting and with respect to any other matters which may properly come before the Meeting. **As of the date of this Proxy Circular, Management of the Corporation is not aware of any such amendments or variations, or any other matters that will be presented for action at the Meeting other than those referred to in the accompanying Notice of Meeting. If, however, other matters that are not now known to Management properly come before the Meeting, then the persons named in the accompanying form of proxy intend to vote on them in accordance with their best judgment.**

The Corporation is not relying on the notice-and-access delivery procedures outlined in NI 54-101 to distribute copies of Meeting Materials.

## INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Except as may be disclosed herein, no director or executive officer of the Corporation, or any person who has held such a position since the beginning of the last completed financial year end of the Corporation, nor any nominee for election as a director of the Corporation, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting except directors and executive officers that may be interested in the approval of (i) the new Non-Employee Directors Deferred Share Unit Plan, and (ii) the new Restricted Share Unit Plan, each as defined below and detailed in **"Particulars of Other Matters to be Acted Upon"** herein

## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The Corporation is authorized to issue an unlimited number of common shares (the "Common Shares") without par value, of which 54,270,086 are issued and outstanding as of May 4, 2021, and an unlimited number of Class "A" preference shares (the "Preference Shares") without par value, of which 5,000,000 are designated Class "A" convertible voting preference, series 1 shares (the "Convertible Shares") without par value.

The Common Shares have been listed posted for trading on the TSX under the symbol "**KLS**" since May 22, 2014, prior to which the Common Shares traded on the TSX Venture Exchange ("**TSXV**") since October 23, 2020. 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**".

In accordance with applicable laws, the board of directors of the Corporation (the "**Board**") has fixed a record date as at April 21, 2021 (the "**Record Date**") for the purposes of determining Shareholders entitled to receive notice of, and to vote at, the Meeting, and has obtained a list of all persons who are Registered Shareholders at the close of business on the Record Date and the number of Common Shares registered in the name of each Registered Shareholder on that date. Each Registered Shareholder as at the close of business on the Record Date will be entitled to receive notice of the Meeting and will be entitled to one vote at the Meeting for each Common Share registered in his or her name as it appears on the list.

To the knowledge of the directors and executive officers of the Corporation, as at the Record Date, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, securities carrying 10% or more of the voting rights attached to all outstanding voting securities of the Corporation:

## **BUSINESS OF THE MEETING**

### **Receipt of Financial Statements**

The audited consolidated annual financial statements of the Corporation for the year ended December 31, 2020 and accompanying auditor's report, and the management's discussion and analysis of the Corporation for the year ended December 31, 2020, will be presented at the Meeting. Copies of the Financial Statements, the auditors' report thereon and management's discussion and analysis of the Corporation ("MD&A") for the year ended December 31, 2020 have been mailed to all Registered Shareholders and Non-Registered Shareholders who have opted to receive such materials. The Financial Statements can also be found on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com) and are also available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States. No vote by the Shareholders is required to be taken with respect to the Financial Statements.

### **Appointment and Remuneration of Auditors**

Unless otherwise instructed, the proxies given pursuant to this solicitation will be voted for the appointment of Smythe, LLP as auditors of the Corporation to hold office until the close of the next annual meeting of the Corporation, at a remuneration to be fixed by the directors of the Corporation. Smythe, LLP were first appointed as auditors of the Corporation on November 16, 2009. **The Board recommends a vote "FOR" the appointment of Smythe, LLP, as the auditor of the Corporation to hold office until the close of the next annual meeting of Shareholders and to authorize the directors to fix the auditor's remuneration.**

## **ELECTION OF DIRECTORS**

The term of office of each of the present directors expires at the Meeting. The Board proposes to nominate the persons named in the table below for re-election as directors of the Corporation. The nominees consist of the existing directors of the Corporation.

Each director elected will hold office until the next annual general meeting of the Corporation or until his or her successor is duly elected or appointed, unless the office is earlier vacated in accordance with the Articles of the Corporation or the Business Corporations Act (British Columbia) or he or she becomes disqualified to act as a director.

### **Advance Notice Policy**

On June 5, 2013, the Shareholders approved the adoption of new articles of the Corporation (the "New Articles") which replaced the then existing Articles in their entirety. The New Articles contained an Advance Notice Policy (the "ANP"), which includes, among other things, a provision that requires advance notice be given to the Corporation in circumstances where nominations of persons for election to the Board are made by shareholders of the Corporation. The New Articles which contain the ANP are posted on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com). As at the date of this Circular, the Corporation has not received notice of any director nominations pursuant to the ANP. Accordingly, at this time, the only persons eligible to be nominated for election to the Board at the Meeting are the below nominees.

### **Majority Voting Policy**

In accordance with good corporate governance practices and procedures, the Board of directors of the Corporation adopted a Majority Voting Policy at a meeting of the Board on March 23, 2015. The Majority Voting Policy provides that each director of the Corporation must be elected by the vote of a majority of the Corporation's Common Shares, represented in person or by Proxy, at any meeting held for the election of directors. Forms of Proxy for the election of directors will permit a shareholder to vote in favour of, or to withhold from voting, separately for each director nominee.

If any nominee for director does not receive a majority vote in favour of his or her election from the Common Shares voted at the meeting in person or by Proxy, that director must immediately tender his or her resignation. The Corporate Governance and Nominating Committee of the Corporation will expeditiously consider whether to recommend to the Board whether or not to accept the resignation. In making this recommendation, the Corporate Governance and Nominating Committee of the Corporation may consider such extenuating circumstances as it deems appropriate including without limitation circumstances relating to the composition of the Board or the voting results.

The Board shall determine whether or not to accept the resignation within ninety days of the relevant shareholders' meeting. The Board shall accept the resignation absent exceptional circumstances. The resignation will be effective when accepted by the Board. A director who tenders a resignation pursuant to this policy will not participate in any meetings of the Board or any sub-committee of the Board at which the resignation is considered.

The Corporation shall promptly issue a news release with the Board's decision, a copy of which must be provided to the Toronto Stock Exchange (the "TSX"). If the Board determines not to accept a resignation, the news release must fully state the reasons for that decision.

### Director Nominees

The following table provides the name, residence, participation on the Corporation's Board and Board committees, number of Common Shares beneficially owned or controlled or directed as of the date of this Proxy Circular and principal occupation during the preceding five years of each of the nominated directors of the Corporation. The Corporation has been advised that each of the nominated directors is willing to serve on the Board for the ensuing year. Each director has provided the information about the securities that he or she owns or over which he or she exercises control or direction.

**The Board recommends a vote "FOR" the appointment of each of the following nominees as directors. In the absence of a contrary instruction, the person(s) designated by management of the Corporation in the enclosed form of proxy intend to vote FOR the election as directors of the proposed nominees whose names are set forth below, each of whom has been a director since the date indicated below opposite the proposed nominee's name.**

Name and Jurisdiction of Residence	Current Occupation/Age/Biography	Served as a Director Since	Number of Voting Securities of the Corporation Beneficially Owned or Controlled or Directed, Directly or Indirectly <sup>(1)</sup>
James R. Bond British Columbia, Canada	<p><b>Occupation:</b> Director, President and CEO of the Corporation</p> <p><b>Age:</b> 66</p> <p><b>Biography:</b> President and CEO of the Corporation from April 2010 to present; director of SiQ Mountain Industries Inc., a company listed on the TSX Venture Exchange (the "TSXV"). Mr. Bond is the President of Bondwest Enterprises Inc., a Canadian company established in 1988 that specializes in corporate architecture, financial networking, entrepreneurial management, strategic business development and distress turnarounds. Over the past 36 years he has served in advisory, consulting, executive management, director and corporate officer roles in numerous private and public companies conducting business in the technology, manufacturing and processing industries.</p>	April 7, 2010	1,368,300 Common Shares <sup>(2)</sup>

Name and Jurisdiction of Residence	Current Occupation/Age/Biography	Served as a Director Since	Number of Voting Securities of the Corporation Beneficially Owned or Controlled or Directed, Directly or Indirectly <sup>(1)</sup>
Peter Hughes <sup>(4)</sup> British Columbia, Canada	<p><b>Occupation:</b> Lead Director of the Corporation; Self-employed businessman</p> <p><b>Age:</b> 59</p> <p><b>Biography:</b> Mr. Hughes has 35 years' business experience including senior-level executive and director positions in both private and public companies specializing in pharmaceuticals, alternative energy, mining, aquaculture and sports technology. Mr. Hughes is a graduate of the University of British Columbia with a Bachelors' degree in Science, Canadian Securities Course and Director's and Officer's Course. Mr. Hughes currently serves as a President and CEO of SIQ Mountain Industries Inc., Director of Yuntone Capital Corp., CEO and Director of Gourmet Ocean Products Inc. and a Director of Navion Capital Inc. all of which are on the TSXV.</p>	October 4, 2010	16,000 Common Shares
Anthony ("Tony") Andrukaitis Texas, USA	<p><b>Occupation:</b> Director, Chief Operating Officer of the Corporation from March 1, 2016 to present; Executive Vice-President Business Development of the Corporation from January 2, 2015 to present</p> <p><b>Age:</b> 66</p> <p><b>Biography:</b> 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.</p>	August 24, 2011	264,000 Common Shares
Paul Cass <sup>(3)(4)</sup> British Columbia, Canada	<p><b>Occupation:</b> Director of the Corporation; Independent Businessman.</p> <p><b>Age:</b> 64</p> <p><b>Biography:</b> 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 holds an MBA and BAsC and is a member of the Association of Professional Engineers and Geoscientists of British Columbia (P.Eng).</p>	June 2, 2016	79,000 Common Shares
Laura Roach <sup>(4)(5)</sup> Texas, USA	<p><b>Occupation:</b> Ms. Roach is an attorney and partner at McCathern Law, a Law firm located in Frisco, Texas.</p> <p><b>Age:</b> 49</p> <p><b>Biography:</b> Ms. Roach's practice consists of family law with a primary focus on mediation, divorce and 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 earned a Juris Doctor from St. Mary's University School of Law and a BSc from the University of Arizona.</p>	August 10, 2016	6,390 Common Shares

Name and Jurisdiction of Residence	Current Occupation/Age/Biography	Served as a Director Since	Number of Voting Securities of the Corporation Beneficially Owned or Controlled or Directed, Directly or Indirectly <sup>(1)</sup>
Jesse V. Crews <sup>(3)(5)</sup> California, USA	<p><b>Occupation:</b> Chief Investment Officer of Trinity Industries Leasing Company (“TILC”). TILC is the railcar leasing subsidiary of Trinity Industries Inc.</p> <p><b>Age:</b> 68</p> <p><b>Biography:</b> Mr. Crews is the Chief Investment Officer of Trinity Industries Leasing Company, which he joined in 2011, which includes accountability for the leasing company’s long-term portfolio investment strategy, wide-ranging capital market activities, as well as major transaction initiatives. From 2009 to 2011, he served as the Chief Operating Officer and Executive Vice President of Willis Lease Finance Corp. From 2004 to 2009, he served as a Managing Director for Fortress Investment Group. Previously, he served as the President and Chief Executive Officer of GATX Financial Corporation (formerly GATX Capital Corporation). Mr. Crews joined GATX in 1977 as a Financial Analyst and held a progression of positions through 2002, including Manager in Singapore, Regional Manager in New Orleans/Houston, head of New Business Development in their San Francisco main office, head of Corporate Finance, Chief Investment Officer, and culminated in his election as Chief Executive Officer in 1998. Mr. Crews is a member “Emeritus” of the Board of Trustees for the Darden Graduate School of Business at the University of Virginia. He earned a Masters’ in Business Administration from the University of Virginia and a Bachelor of Arts degree in Economics from Yale University.</p>	April 17, 2018	112,125 Common Shares
Frank Busch <sup>(3)(5)</sup> British Columbia, Canada	<p><b>Occupation:</b> Chief Executive Officer of NationFUND Access Capital Corporation.</p> <p><b>Age:</b> 42</p> <p><b>Biography:</b> Mr. Busch’s expertise is finance, business development and Indigenous relations as Chief Executive Officer of NationFUND Access Capital Corporation in Canada. Mr. Busch received his Bachelor of Arts from the University of Manitoba and has completed five specialized financial certificates from the Canadian Securities Institute and a post-graduate Certificate in Finance from Harvard University in preparation for entering the Masters’ of Liberal Arts in Extension Studies Field: Finance at Harvard. Mr. Busch is an expert in the field of Indigenous Engagement and Relations and has spoken publicly, published articles and advised companies and organizations of all sizes on the subject.</p>	February 11, 2020	20,000

<sup>(1)</sup> Securities beneficially owned, directly or indirectly, or over which control or direction is exercised, as at May 4, 2021, based upon information furnished to the Corporation by the individual nominees.

<sup>(2)</sup> Mr. Bond holds 552,500 Common Shares directly; 660,800 Common Shares indirectly through Bondwest Enterprises Inc., a company owned and controlled by Mr. Bond; and 155,000 Common Shares jointly with Serena Sardar, Mr. Bond’s spouse.

<sup>(3)</sup> Member of the Audit Committee.

<sup>(4)</sup> Member of the Compensation Committee.

<sup>(5)</sup> Member of the Corporate Governance and Nominating Committee.

### ***Corporate Cease Trade Orders or Bankruptcies***

No proposed director is, as of the date hereof, or has been, within ten years before the date of this Proxy Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (each, an “**order**”) that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or

- (b) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer.

No proposed director is, as of the date hereof, or has been, within ten years before the date of this Proxy Circular, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### ***Individual Bankruptcies***

No proposed director of the Corporation has, within ten years before the date of this Proxy Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

### ***Penalties or Sanctions***

No proposed director of the Corporation has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for the proposed director.

### ***Conflicts of Interest***

Circumstances may arise where members of the Board are directors or officers of companies which are in competition to the interests of the Corporation. Pursuant to applicable law, directors who have an interest in a proposed transaction upon which the Board is voting are required to disclose their interests and refrain from voting on the transaction.

There is no family relationship between any of the individuals who are proposed nominees for election to the Board or executive officers of the Corporation.

As at the date of this Proxy Circular, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and a subsidiary of the Corporation and a director or officer of the Corporation or of a subsidiary of the Corporation.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

For the purposes of this Proxy Circular, a named executive officer (“NEO”) of the Corporation means each of the following individuals:

- (a) the CEO of the Corporation;
- (b) the CFO of the Corporation;
- (c) each of the Corporation’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than C\$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6, for that financial year; and
- (d) each individual who would be an NEO under paragraph (c) above but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of that financial year.

The Corporation's NEOs for the fiscal year ending December 31, 2020 were:

- James R. Bond, CEO;
- Richard Lee, CFO;
- Tony Andrukaitis, COO;
- Amanda Smith, VP Operations;
- Patrick Hankey, Controller.

## **Compensation Discussion and Analysis**

### ***Introduction***

The Compensation Committee oversees the performance and compensation of executive officers of the Corporation. The Compensation Committee approves or makes recommendations to the Board on: all aspects of compensation philosophy, strategy and policies; performance criteria and evaluations; and compensation payable to the CEO, the other NEOs and other executive officers.

### ***Executive Compensation Plan***

The Compensation Committee reviews, for approval by the Board, the design and competitiveness of the Corporation's executive pay-for-performance compensation program. The fundamental objective of the Corporation is the long-term creation and protection of Shareholder value, and the Corporation's executive compensation system is designed to:

- attract, retain, motivate and reward high-calibre talent through competitive pay practices;
- connect the compensation model directly to specific corporate, operating, health, safety and environment ("HSE"), and individual performance objectives;
- motivate high-performers to achieve exceptional levels of performance through rewards.

The Corporation's commitment to connecting pay with performance is reflected in the percentage of the executive officer's compensation that is "at risk" using short-term (annual) and long-term incentive compensation that pays out only if high levels of performance are achieved in the view of the Compensation Committee and the Board. While the percentage of "at risk" compensation varies with each executive officer, in each case it comprises a majority of total targeted compensation.

### ***Compensation Committee – Members and Skills***

The Board has established the Compensation Committee to, among other things, administer the Corporation's executive compensation plan. The members of the Compensation Committee are Peter Hughes (Chair), Paul Cass and Laura Roach, all have relevant experience and competence. All of the members of the Compensation Committee are considered independent directors. See "*Business of the Meeting – Election of Directors – Director Nominees*".

Mr. Hughes has 35 years' business experience including senior-level executive and director positions in both private and public companies.

Mr. Cass has held several positions at Ballard Power Systems Inc. including Vice President and Chief Operations Officer (2014 to March 31, 2016) and other senior level executive positions since 2009.

Ms. Roach is an attorney and partner at McCathern Law, a Law firm located in Frisco, Texas.

The members of the Compensation Committee have a range of skills and experience which the Board believes provides the expertise necessary to oversee the Corporation's executive compensation structure. In addition, the Compensation Committee may obtain input from independent outside compensation consultants when necessary. The relevant experience of the Compensation Committee members is summarized below.

### *Executive Compensation Consultant*

The Compensation Committee may periodically engage an independent executive compensation consultant specializing in executive and Board compensation reviews, strategic short- and long-term incentive plan design, executive retention issues and compensation and executive contract issues surrounding mergers and acquisitions. In the past the Corporation has engaged Roger Gurr & Associates (“Gurr”). In 2020, the Compensation Committee did not engage Gurr.

### *Compensation Governance*

The Compensation Committee receives information and makes recommendations to the Board and, if applicable, Shareholders, on matters relating to the principles of compensation, as well as all compensation and other terms of employment of executive officers. The Compensation Committee meets regularly and its tasks include monitoring and evaluating programs for variable compensation for executive officers and the application of the executive compensation plan, as well as compensation structures, risks and levels throughout the Corporation.

The Compensation Committee, subject to the powers and duties of the Board, has the following responsibilities:

- (a) review and approve corporate goals and objectives relevant to CEO compensation;
- (b) evaluate the CEO’s performance in light of the corporate goals and objectives, and make recommendations to the Board with respect to the CEO’s compensation level based on the Compensation Committee’s evaluation;
- (c) review and approve the appointment, compensation and other terms of employment of the CFO, all senior management reporting directly to the CEO and all other officers appointed by the Board;
- (d) review executive compensation disclosure before the Corporation publicly discloses this information;
- (e) periodically submit a report to the Board on human resources matters;
- (f) prepare an annual report for inclusion in the Corporation’s management information circular to shareholders respecting the process undertaken by the Compensation Committee in its review and preparing a recommendation in respect of CEO compensation; and
- (g) review and assess the adequacy of the Compensation Committee’s mandate from time to time, as required, to ensure compliance with any rules or regulations promulgated by any regulatory body and recommend to the Board for its approval any modifications to the Compensation Committee’s mandate as required.

The Compensation Committee is entitled to request the advice and assistance of additional external compensation consultants and other advisors. However, the Compensation Committee is required to ensure that there is no conflict of interest regarding other assignments that such consultants or advisors may have for the Corporation and its management.

The role of the Compensation Committee is to assist the Board in fulfilling its responsibilities with respect to compensation issues. The Compensation Committee is required to meet at least annually. The Compensation Committee evaluates the NEOs performance and establishes executive and senior officer compensation, determines the general compensation structure, policies and programs of the Corporation, including the extent and level of participation in incentive programs, and makes recommendations to the Board for its consideration and approval. The Compensation Committee has also been mandated to review the adequacy and form of the compensation of directors and to ensure that such compensation realistically reflects the responsibilities and risk involved in being an effective director as well as the risk any such compensation policy or practice would have a material adverse effect on the Corporation.

In making compensation decisions, the Compensation Committee strives to find a balance between short-term and long-term compensation and cash versus equity incentive compensation. Base salaries and discretionary cash bonuses primarily reward recent performance and incentive stock options encourage NEOs to continue to deliver results over a longer period of time and serve as a retention tool. The annual salary for each NEO is determined by

the Compensation Committee based on the level of responsibility and experience of the individual, the relative importance of the position to the Corporation, the professional qualifications of the individual and the performance of the individual over time. The NEOs' performances and salaries are to be reviewed periodically on the anniversary of their employment with the Corporation. Increases in salary are to be evaluated on an individual basis and are performance and market-based. Except for named executive officers whose employment agreements provide a formula for calculation of the amount of cash bonuses, the amount and award of cash bonuses to key executives and senior management is discretionary, dependent on, among other factors, the financial performance of the Corporation and the position of a participant.

### **Role of Management in Determining Compensation**

The accountability for decisions on executive remuneration is clearly within the mandate of the Compensation Committee, but management has a key role in helping support the committee in fulfilling its obligations. For example, the CEO and other senior executives make recommendations to the Compensation Committee regarding executive officer base salary adjustments, stock-based grants and discretionary bonuses. The Compensation Committee reviews the basis for these recommendations and can exercise its discretion in modifying any of the recommendations prior to making its recommendations to the Board. The CEO does not make a recommendation to the Compensation Committee with respect to his own remuneration package.

### **Overview of Compensation Philosophy**

The Corporation does not have a formal compensation program. The Corporation's core compensation philosophy is to pay our executive officers competitive levels of compensation that best reflect their individual responsibilities and contributions to the Corporation, while providing incentives to achieve our business and financial objectives.

The Corporation's compensation structure is designed to reward performance and to be competitive with the compensation arrangements of other Canadian companies of similar size and scope of operations. A number of factors are considered when determining NEO compensation including, the overall financial and operating performance of the Corporation, the NEOs individual performance and contribution to the benefit of the Corporation, the individual NEOs responsibilities and length of service, levels of compensation provided by industry competitors, and the long-term interests of the Corporation and its shareholders.

In 2020 each NEOs' compensation package consisted of a base salary, incentive stock options and a bonus plan whereby 10% of the Corporation's annual net income before taxes and share-based payments would be equally distributed to the NEOs. Messrs. Bond, Andrukaitis and Lee have performance goals in their Professional Services Agreements entered into on July 1, 2020. The particulars of the performance goals are more particularly described under the heading "Termination and Change of Control Benefits" herein.

### **Elements of Compensation**

Compensation for the NEOs is composed primarily of four components; namely, base salary, participation in the Corporation's incentive stock option plan, if approved, the new Restricted Share Unit Plan (the "**RSU Plan**") and Non-Employee Directors Deferred Share Unit Plan (the "**DSU Plan**"), and short-term incentive compensation in the form of discretionary performance bonuses and other benefits. Other benefits do not form a significant part of the remuneration package of any of the NEOs.

The Board adopted the RSU Plan and the DSU Plan for the benefit of the Corporation's directors, employees and consultants, on April 28, 2021. The RSU Plan and DSU Plan have been established as vehicles to: (i) promote a further alignment of interests between directors, employees, consultants and Shareholders; (ii) to associate a portion of a director's, employee's or consultant's compensation with the returns achieved by Shareholders; and (iii) to attract and retain directors, employees and consultants with the knowledge, experience and expertise required by the Corporation.

The Board intends to use both the Restricted Share Units ("**RSUs**") and Non-Employee Directors Deferred Share Units (the "**DSUs**") issued under the respective plans as part of the Corporation's overall executive compensation plan. Since the value of RSUs and DSUs increase or decrease with the price of the common shares, DSUs and RSUs reflect a philosophy of aligning the interests of holders there with those of the Shareholders by tying compensation

to share price performance. The RSU Plan and DSU Plan are more fully described under the heading “**Particulars of Other Matters to be Acted Upon**” herein.

Each element of the Corporation’s executive compensation program is described in more detail below.

### **Base Salaries**

An NEOs base salary is intended to remunerate the NEO for discharging job responsibilities and reflects the executive’s performance over time. Individual salary adjustments take into account performance contributions in connection with their specific duties. The base salary of each executive officer is recommended by the Compensation Committee to the Board for approval based on an assessment of his sustained performance and consideration of competitive compensation levels for the markets in which the Corporation operates. In making its recommendations to the Board, the Compensation Committee also considers the particular skills and experience of the individual. The base salaries of executive officers are reviewed annually. As payment of base salaries does not depend on the performance of any specific targets or goals it is not viewed as “at risk” compensation.

### **Long Term Incentive Compensation – Stock Options and other Equity Based Compensation Arrangements**

The stock option component of an NEOs compensation, which, at the discretion of the Board, can include a vesting element to ensure retention, serves to both motivate the executive toward increasing share value and to enable the executive to share in the future success of the Corporation and is reviewed as “at risk”. Individual stock options are granted by the Board on the recommendation of senior management, in the case of employees, and by the Compensation Committee, in the case of executive officers, including the Chief Executive Officer. Options are normally awarded by the Board upon the commencement of an individual’s employment with the Corporation based on the level of responsibility within the Corporation. Additional option grants may be made periodically to ensure that the number of stock options granted to any particular individual is commensurate with the individual’s level of ongoing responsibility within the Corporation. In considering additional grants, a number of factors are considered including, the role the individual plays in the Corporation, the number of stock options an individual has been granted, the exercise price and the value of the options and the term remaining on those options.

If approved, the RSUs and DSU’s will form a component of long term compensation.

### **Short Term Incentive Compensation – Discretionary Cash Bonuses**

As an additional incentive, the Corporation had management bonus agreements with the three NEOs, whereby 10% of the annual net income of the Corporation, before taxes and share-based payments, if any, would be equally distributed to the NEOs.

The Corporation may award additional discretionary cash bonuses to executive officers and employees of Corporation from time to time. Other than with respect to the NEOs, the amount of the bonus that each individual may be eligible for is not set in relation to any formula or specific criteria but is the result of a subjective determination of the Corporation’s performance, overall industry conditions, as well as the individual’s performance and his or her contribution to overall corporate goals. The payment of bonuses is subject to the final approval of the Board and the Board has the discretion to amend or veto bonuses in its sole discretion. This form of compensation is “at risk”.

### **Other Benefits**

The purpose of other benefits is to complete the compensation package in line with levels of market terms and to help facilitate the discharge of each individual’s duties.

### **Analysis of Elements**

Base salary is used to provide the named executive officers a set amount of money during the year with the expectation that each NEO will perform his responsibilities to the best of his ability and in the best interests of the Corporation.

The Corporation considers the granting of incentive stock options, and if approved, the RSUs and DSUs, to be a significant component of executive compensation as it allows the Corporation to reward each NEO's efforts to increase value for shareholders without requiring the Corporation to use cash from its treasury. Stock options are generally awarded to directors, officers, consultants and employees at the commencement of employment and periodically thereafter. The terms and conditions of the Corporation's stock option grants, and if approved, the RSUs and DSUs, including vesting provisions and exercise prices, are governed by the terms of the Corporation's stock option plan, the RSU Plan and DSU Plan. The stock option plan is more fully described under the heading "2014 Stock Option Plan" herein. The RSU Plan and DSU Plan are more fully described under the heading "Particulars of Other Matters to be Acted Upon" herein.

As an additional incentive, the Corporation has management bonus agreements with the NEOs whereby 10% of the annual net income before taxes and share-based payments would be equally distributed to the NEOs.

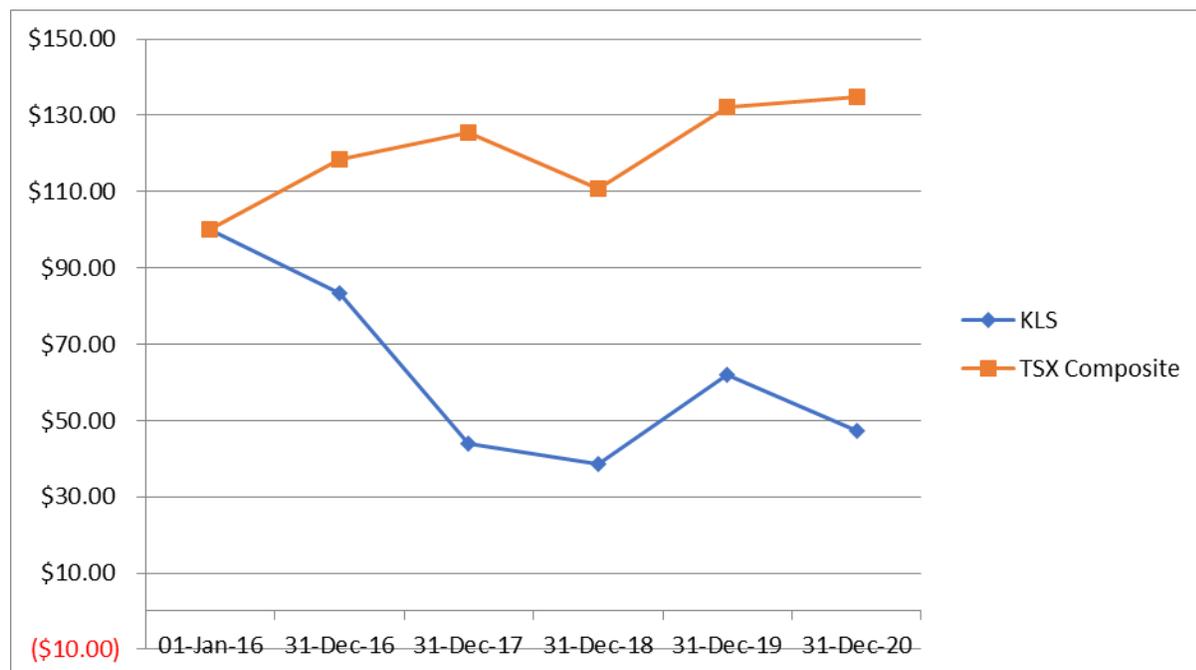
### Compensation Benchmarking

Since May of 2015, the Corporation's Compensation Committee (the "Compensation Committee") has engaged Gurr to assess the market competitiveness of the Corporation's Executive and Director compensation. Gurr has repeatedly assisted the Compensation Committee with establishing fair, reasonable and industry-specific advice on various aspects of Director, Executive and key employee cash and non-cash compensation. Gurr also takes into consideration the stage of the Corporation's development and the Corporation's status as a publicly traded company in both Canada and the United States. After engaging with Gurr, the Compensation Committee then makes recommendations to the Board based on Gurr's advice.

### Performance Graph

As of market open on May 22, 2014 the Corporation's Common Shares were listed for trading on the TSX and delisted from the TSX-V as of market close on May 21, 2014. The trading symbol remained "KLS".

The following graph compares the yearly percentage change in the cumulative total shareholder return on the TSX for the years ending 2016 through 2020 for CDN\$100 invested in Common Shares of the Corporation on January 1, 2016. This is compared against the cumulative total shareholder return of the S&P/TSX Composite Index for the financial years ended 2016 through 2020.



The Share performance as set out in the graph does not necessarily indicate future price performance.

As reflected in the performance graph above, the market performance of the Corporation's Common Shares was strong up to 2016. The Corporation's share price reflected the decline of the demand for hazardous tanks cars from 2017 through 2019. In 2020 the COVID-19 pandemic delivered a powerful economic setback for the Corporation as the pandemic negatively impacted the business dynamics in the rail tank car industry.

The Corporation's compensation policy links performance-based compensation of executives to specific benchmarks which include specific operational objectives and individual objectives as well as relative TSR compared to the Corporation's peer group. Accordingly, there is no direct link between the indices shown above and executive compensation as determined by the Compensation Committee and the Board.

### Retirement Benefits

The Corporation does not have formal pension plans for its executives. However, from time to time, in order to attract and retain the right level of skill, expertise and talent, the Corporation may structure the overall compensation arrangements of one or more of its executives to include retirement compensation arrangements.

### Prohibition on Hedging

The Corporation's directors and officers are prohibited from purchasing financial instruments that are designed to hedge or offset any decrease in the market value of the Corporation's equity securities that are held directly or indirectly by them or granted as compensation to them. Such prohibited financial instruments with respect to the Corporation's equity securities include prepaid variable forward contracts, equity swaps, collars, put or call options, and similar financial instruments.

### Summary Compensation Table

During the year ended December 31, 2020, the Corporation had five NEOs. The following table sets forth all direct and indirect compensation for, or in connection with, services provided to the Corporation and its subsidiaries for the last three financial years.

Particulars of compensation paid to each NEO for each of the three most recently completed financial years are set out in the summary compensation table below:

Name and Principal Position	Year Ended Dec. 31	Salary (\$)	Option-based Awards <sup>(1)</sup> (\$)	Non-equity Incentive Plan Compensation (\$) <sup>(3)</sup>	All Other Compensation (\$)	Total Compensation (\$)
		(a)	(b)	Annual Incentive Plans <sup>(2)</sup> (\$)		
James R. Bond President & CEO	2020	213,948	46,619	9,474	Nil	270,041
	2019	180,000	40,554	165,632	Nil	386,186
	2018	180,000	32,794	23,345	Nil	236,139
Richard Lee Chief Financial Officer	2020	213,948	46,619	9,474	Nil	270,041
	2019	180,000	40,554	165,632	Nil	386,186
	2018	180,000	32,794	23,345	Nil	236,139
Tony Andrukaitis Chief Operating Officer	2020	213,948	46,619	9,474	Nil	270,041
	2019	180,000	40,554	165,632	Nil	386,186
	2018	180,000	32,794	23,345	Nil	236,139
Amanda Smith VP Operations	2020	135,000	10,160	Nil	Nil	145,160
	2019	135,000	Nil	Nil	40,500	175,500
	2018	178,258	5,631	Nil	Nil	183,889
Patrick Hankey Controller	2020	130,000	10,160	Nil	Nil	140,160
	2019	130,000	Nil	Nil	39,000	169,000
	2018	171,680	12,445	Nil	Nil	184,125

<sup>(1)</sup> The value of the stock option grants has been determined using the Black-Scholes models on the date of grant and is consistent with the determinations used for financial statement purposes. The key assumptions used for this determination can be found in the notes to the 2020

consolidated financial statements. The amount presented in the table represents the fair value of the vested and unvested portion of the options granted in the period. For accounting purposes, the fair value of the award is amortized over the applicable vesting period. It should be recognized that the actual future value will be based on the difference between the market value at time of exercise and the exercise price. Therefore, the value attributed to the stock options under the Black-Scholes model does not necessarily correspond to the actual future value that will be realized.

- (2) Other than as set out in column (d), perquisites have not been included as they do not reach the prescribed threshold of the lesser of \$CDN 50,000 and 10% of total salary for the financial year.
- (3) The Corporation has management bonus agreements whereby 10% of the annual income before taxes, amortization and share-based expense is equally distributed to management.

### Outstanding share-based awards and option-based awards

The following table sets forth option-based awards for each of the NEOs outstanding as at the year ended December 31, 2020. There were no outstanding share-based awards.

Name	Option Based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options (US\$) <sup>(1)</sup>
James R. Bond	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	25,000
	100,000	0.50	August 20, 2023	5,000
	100,000	0.78	August 19, 2024	0
	100,000	0.75	August 18, 2025	0
Richard Lee	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	25,000
	100,000	0.50	August 20, 2023	5,000
	100,000	0.78	August 19, 2024	0
	100,000	0.75	August 18, 2025	0
Tony Andrukaitis	100,000	1.30	August 18, 2021	0
	100,000	0.30	November 28, 2022	25,000
	100,000	0.50	August 23, 2023	5,000
	100,000	0.78	August 19, 2024	0
	100,000	0.75	August 18, 2025	0
Amanda Smith	25,000	0.30	November 28, 2022	3,421
	25,000	0.50	August 20, 2023	0
	25,000	0.75	August 18, 2025	0
Patrick Hankey	50,000	0.90	July 6, 2022	0
	25,000	0.50	August 20, 2023	0
	25,000	0.75	August 18, 2025	0

<sup>(1)</sup> 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 31, 2020 (being US\$0.55) 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.

### Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth details of the value vested or earned for all incentive plan awards by each NEO during the year ended December 31, 2020.

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
James R. Bond	6,000	Nil	Nil
Richard Lee	6,000	Nil	Nil
Tony Andrukaitis	6,000	Nil	Nil

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Amanda Smith	1,500	Nil	Nil
Patrick Hankey	1,500	Nil	Nil

<sup>(1)</sup> Calculated using the closing price of the Common Shares on the NYSE American on the dates on which stock options vested during 2020 or if the NYSE American is not open on such date, the closing price of the Common Shares on the NYSE American on the last date that the NYSE American is open preceding the vesting date and subtracting the exercise price of in-the-money stock options.

There was no re-pricing of stock options under the stock option plan or otherwise during the Corporation's completed financial year ended December 31, 2020.

## DIRECTORS' COMPENSATION

Non-Executive Directors receive an annual compensation of US\$24,000, the lead Director receives an annual compensation of US\$42,000, the Chair of the Audit Committee receives an additional US\$10,000 annually and the Chair of the Compensation Committee and Chair of Corporate Governance and Nominating Committee receive an additional US\$7,500 annually. No fees are paid for attendance at meetings. Also, pursuant to the 2014 Option Plan, the Corporation may, from time to time, grant options to purchase Common Shares to directors.

In 2015 Gurr recommended that independent Directors receive an annual issuance of 50,000 stock options with a term of 5 years and vesting provisions, one third at issuance and one third on each of the next two anniversaries. The Compensation Committee took into consideration the Gurr's recommendations and recommended to the Board, who approved the Compensation Committee recommendations, all future option issuances will have a term of five years and vest 1/3 at the first anniversary of the grant, 1/3 on the second anniversary of granting and 1/3 on the third anniversary of granting.

A director who is an employee of the Corporation does not receive director's fees.

Directors are also reimbursed for out-of-pocket expenses incurred in attending meetings of the Board of committee meetings or otherwise on Corporation business.

### Director Compensation Table

No director was compensated either directly or indirectly by the Corporation or its subsidiaries during the most recently completed financial year for services as consultants or experts.

The following table provides details of compensation paid to the directors, other than the NEOs, during the Corporation's financial year ended December 31, 2020:

Name	Fees Earned (\$)	Option-based Awards (\$) <sup>(1)</sup>	All Other Compensation (\$)	Total (\$)
Peter Hughes	49,500	23,309	-	72,809
Paul Cass	33,167	23,309	-	56,476
Laura Roach	24,000	23,309	-	47,309
Jesse V. Crews	31,500	26,287	-	57,787
Frank Busch <sup>(2)</sup>	22,000	89,158	-	111,158
Phil Dyer <sup>(2)</sup>	2,833	9,923	-	12,756

<sup>(1)</sup> The value of the stock option grants has been determined using the Black-Scholes models on the date of grant and is consistent with the determinations used for financial statement purposes. The key assumptions used for this determination can be found in the notes to the 2020 consolidated financial statements. The amount presented in the table represents the fair value of the vested and unvested portion of the options granted in the period. For accounting purposes, the fair value of the award is amortized over the applicable vesting period. It should be recognized that the actual future value will be based on the difference between the market value at time of exercise and the exercise price. Therefore, the value attributed to the stock options under the Black-Scholes model does not necessarily correspond to the actual future value that will be realized.

<sup>(2)</sup> Mr. Dyer resigned as a director of the Corporation and was replaced by Mr. Frank Busch on February 11, 2020.

Other than as set forth in the foregoing, no director of the Corporation who is not a NEO has received, during the most recently completed financial year, compensation pursuant to:

- (a) any standard arrangement for the compensation of directors for their services in their capacity as directors, including any additional amounts payable for committee participation or special assignments;
- (b) any other arrangement, in addition to, or in lieu of, any standard arrangement, for the compensation of directors in their capacity as directors; or
- (c) any arrangement for the compensation of directors for services as consultants or expert.

### Incentive Plan Awards for Directors

#### Outstanding share-based awards and option-based awards

To encourage directors to align their interests with shareholders, directors are granted incentive stock options pursuant to the Corporation's stock option plan, from time to time. The following table provides information with respect to outstanding option-based awards held by the directors of the Corporation at the end of the most recently completed financial year:

The following table sets forth the outstanding option-based awards held by the directors of the Corporation, outstanding as at December 31, 2020, other than James R. Bond and Anthony Andrukaitis, both of whom are NEOs:

Name	Option Based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options (US\$) <sup>(1)</sup>
Peter Hughes	50,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	12,500
	50,000	0.50	August 23, 2023	2,500
	50,000	0.78	August 19, 2024	0
	50,000	0.75	August 18, 2025	0
Paul Cass	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	12,500
	50,000	0.50	August 23, 2023	2,500
	50,000	0.78	August 19, 2024	0
	50,000	0.75	August 18, 2025	0
Laura Roach	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	12,500
	50,000	0.50	August 23, 2023	2,500
	50,000	0.78	August 19, 2024	0
	50,000	0.75	August 18, 2025	0
Jesse V. Crews	200,000	0.57	April 17, 2023	0
	50,000	0.50	August 23, 2023	2,500
	50,000	0.78	August 19, 2024	0
	50,000	0.75	August 18, 2025	0
Frank Busch <sup>(2)</sup>	200,000	0.76	February 11, 2025	0
	50,000	0.75	August 18, 2025	0
Phil Dyer <sup>(2)</sup>	200,000	1.30	August 18, 2021	0
	50,000	0.30	November 28, 2022	12,500
	50,000	0.50	August 20, 2023	2,500
	50,000	0.78	August 19, 2024	0

<sup>(1)</sup> 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 31, 2020 (being US\$0.55) 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.

<sup>(2)</sup> Mr. Dyer resigned as a director of the Corporation and was replaced by Mr. Frank Busch on February 11, 2020.

## Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth details of the value vested or earned for all incentive plan awards by each director, other than James R. Bond and Anthony Andrukaitis, both of whom are NEOs, during the year ended December 31, 2020.

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Peter Hughes	3,000	n/a	n/a
Paul Cass	3,000	n/a	n/a
Laura Roach	3,000	n/a	n/a
Jesse V. Crews	3,000	n/a	n/a
Frank Busch <sup>(2)</sup>	43,000	n/a	n/a
Phil Dyer <sup>(2)</sup>	3,000	n/a	n/a

<sup>(1)</sup> Calculated using the closing price of the Common Shares on the NYSE American on the dates on which stock options vested during 2020 or if the NYSE American is not open on such date, the closing price of the Common Shares on the NYSE American on the last date that the NYSE American is open preceding the vesting date and subtracting the exercise price of in-the-money stock.

<sup>(2)</sup> Mr. Dyer resigned as a director of the Corporation and was replaced by Mr. Frank Busch on February 11, 2020.

## Pension Plan Benefits

The Corporation does not have a pension plan that provides for payments or benefits to the directors at, following, or in connection with retirement.

## Termination and Change of Control Benefits

On July 1, 2020, the Corporation and Bondwest Enterprises Inc., a company 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 will receive 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. 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 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 Corporation and Kitchener Holdings Corp. (“**Kitchener**”) a private company 100% owned 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 will receive 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. 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 Corporation 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 will receive 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. 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 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.

The following table provides details regarding the estimated incremental payments from the Corporation of the NEOs assuming termination on December 31, 2020:

Name	Severance (Base Salary) (\$)	Severance (Bonus) (\$)	Severance (Value of Benefits) (\$)	Total (\$)
James R. Bond	Nil	Nil	480,000	480,000
Richard Lee	Nil	Nil	480,000	480,000
Tony Andrukaitis	Nil	Nil	480,000	480,000

Other than as disclosed elsewhere in this Circular, the Corporation has no contract, agreement, plan or arrangement that provides for payments to any NEO, at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change of control of the Corporation or a change in the NEOs responsibilities other than the standard thirty days notice as disclosed in the professional service agreements. There are no severance or parachute clauses for change of control, other than the 24 month payment clause for termination in the Professional Services Agreements entered into on July 1, 2020 with each of Bondwest, Kitchener and Mr. Andrukaitis.

The Corporation has no contract, agreement, plan or arrangement that provides for payments to directors, at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change of control of the Corporation or a change in the director's responsibilities.

For compensation related to previous years, please refer to the Corporation's Management Information Circulars and its other public disclosure available under the Corporation's profile at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States.

#### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Corporation in the past has purchased and maintained liability insurance for its directors and officers acting in their respective capacities in an aggregate amount of US\$15 million, against liabilities incurred by such persons as directors and officers of the Corporation and its subsidiaries, except where the liability relates to such person's failure to act honestly and in good faith with a view to the best interests of the Corporation. The annual premium was paid by the Corporation for this insurance in respect of the directors and officers as a group. No premium for this insurance is paid by the individual directors and officers. The insurance contract underlying this insurance does not expose the Corporation to any liability in addition to the payment of the required premium. Due to the effects of COVID-19 on the insurance markets and that the Company is listed on both a Canadian and US stock exchange the Company has not been able to secure directors and officers liability insurance.

#### **SUMMARY OF DIVIDEND POLICY AND DIVIDEND REINVESTMENT PLAN**

The Corporation does not currently anticipate paying any dividends on its Common Shares in the foreseeable future. The Corporation currently intends to utilize its earnings to finance the growth and development of its business and to otherwise reinvest in its business. Any decision to pay dividends on the Common Shares in the future will be made by the Board on the basis of the Corporation's earnings and financial requirements as well as other conditions existing at such time. Unless the Corporation commences the payment of dividends, holders of Common Shares will not be able to receive a return on their Common Shares unless they sell them.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

### Equity Compensation Plan Information

The following table sets forth details of the Corporation's compensation plans under which equity securities of the Corporation were authorized for issuance as at December 31, 2020.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by securityholders - Stock Option Plan	4,595,000	\$0.78	122,008
Equity compensation plans not approved by security holders <sup>(1)</sup> - RSU Plan - DSU Plan	Nil Nil	N/A N/A	N/A N/A
<b>Total</b>	<b>4,595,000</b>	<b>\$0.78</b>	<b>122,008</b>

<sup>(1)</sup> The RSU Plan and DSU Plan are more fully described under the heading “**Particulars of Other Matters to be Acted Upon**” herein

### Percentage of issued and outstanding Common Shares

There are a maximum of 4,717,008 Common Shares issuable under the Corporation's stock option plan (the “2014 Option Plan”), representing 10% of the Corporation's issued and outstanding Common Shares as at the end of December 31, 2020. As at the end of December 2020, there were 4,595,000 stock options outstanding under the 2014 Option Plan, representing 9.7% of Common Shares then issued and outstanding and 122,008 stock options remained available for grant, representing 0.3% of Common Shares then issued and outstanding.

### Burn Rate<sup>(1)</sup>

In 2020 there were 950,000 stock options granted which resulted in a burn rate of 2.0%. In 2019 there were 720,000 stock options granted which resulted in a burn rate of 1.5%. In 2018 there were 950,000 stock options granted which resulted in a burn rate of 2.0% and in 2017 there were 875,000 stock options granted which resulted in a burn rate of 1.8%.

<sup>(1)</sup> Calculated using the new TSX prescribed methodology that became effective for issuers with fiscal years ending on or after October 31, 2019 – calculated by dividing stock options granted in the applicable fiscal year by the weighted average number of Common Shares outstanding over the applicable fiscal year.

### **2021 Restricted Share Unit Plan**

The Board adopted the 2021 Restricted Share Unit Plan (the “**RSU Plan**”) for the benefit of the Corporation's employees, directors and consultants on April 28, 2021. Shareholder approval to the RSU Plan is being sought at the Meeting. Reference is made to the heading “**Particulars of Other Matters to be Acted Upon**” for details, including a summary of the RSU Plan.

### **2021 Non-Employee Directors Deferred Share Unit Plan**

The Board adopted a 2021 Non-Employee Directors Deferred Share Unit Plan (the “**DSU Plan**”) on April 28, 2021 for the benefit of the Corporation's non-executive directors of which currently there are five. Shareholder approval of the DSU Plan is being sought at the Meeting. Reference is made to the heading “**Particulars of Other Matters to be Acted Upon**” for details, including a summary of the DSU Plan.

### The 2014 Stock Option Plan

At the Corporation's annual and special meeting of shareholders held on June 25, 2020 shareholders ratified their approval to the 2014 Option Plan and all unallocated options, rights or other entitlements issuable thereunder.

The purpose of the 2014 Option Plan is to ensure that the Corporation is able to provide an incentive program for directors, officers, employees and persons providing services to the Corporation (each, an "Optionee") that provides enough flexibility in the structuring of incentive benefits to allow the Corporation to remain competitive in the recruitment and maintenance of key personnel.

The 2014 Option Plan is administered by the Board of the Corporation which shall, without limitation, have full and final authority in its discretion, but subject to the express provisions of the 2014 Option Plan, to interpret the 2014 Option Plan, to prescribe, amend and rescind rules and regulations relating to it and to make all other determinations deemed necessary or advisable for the administration of the 2014 Option Plan, subject to any necessary shareholder or regulatory approval. The Board may delegate any or all of its authority with respect to the administration of the 2014 Option Plan. The Board shall determine to whom options shall be granted, the terms and provisions of the respective option agreements, the time or times at which such options shall be granted and vested, and the number of Common Shares to be subject to each option.

The material terms of the 2014 Option Plan is qualified in its entirety by the full text of the 2014 Option Plan and can be summarized as follows:

- (a) stock options may be issued to directors, senior officers, employees, consultants and management company employees of the Corporation and its subsidiaries;
- (b) the Board (or any committee delegated by the Board) in its sole discretion will determine the number of options to be granted to any optionee, the optionees to receive the options, and term of expiry which will not exceed 10 years from the date the option is granted;
- (c) the options will be non-assignable except that they will be exercisable by the personal representative of the option holder in the event of the option holder's death;
- (d) the number of Common Shares reserved for issuance to any one person pursuant to options granted under the 2014 Option Plan or otherwise, shall not exceed the maximum percentage of the issued and outstanding Common Shares at the time of granting of the options, if any, as may be prescribed by the policies of the Exchange (as defined in the 2014 Option Plan);
- (e) the aggregate number of Common Shares which may be subject to issuance pursuant to options granted under 2014 Option Plan shall not exceed the equivalent of 10% of the total issued and outstanding Common Shares of the Corporation at the time of grant;
- (f) the exercise price of an option granted under the 2014 Option Plan shall not be less than the Discounted Market Price (as defined in the 2014 Option Plan) if the Corporation's Common Shares are traded on the TSX Venture Exchange, and the Market Price (as defined in the 2014 Option Plan), if the Corporation's Common Shares are traded on the TSX Exchange, provided that:
  - (i) if options are granted within 90 days of a distribution by a prospectus, the minimum exercise price of those options will be the greater of the Discounted Market Price and the per share price paid by the public investors for Common Shares acquired under the distribution,
  - (ii) the 90-day period begins on the date a final receipt is issued for the prospectus,
  - (iii) for unit offerings, the minimum option exercise price will be the 'base' (or imputed) price of the Common Shares included in the unit, and
  - (iv) for all other financings, the minimum exercise price will be the average price paid by the public investors;
- (g) if an optionee ceases to be a director, officer, consultant or employee for any reason other than death, his option shall terminate as specified by the Board at the time of granting the option and all rights to purchase Common Shares under such option shall cease and expire and be of no further force or effect. All options

must terminate within three months of the date of such cessation. If an optionee dies prior to the expiry of his option, his legal representatives may, exercise any portion of the option up to one year from the date of the optionees death or the expiry date of the option;

- (h) the Board may, subject to any required regulatory approval but without shareholder approval, make amendments to an option or the 2014 Option Plan which include, but are not limited to:
  - (i) change the vesting provisions of an option or the 2014 Option Plan,
  - (ii) change the termination provisions of an option or the 2014 Option Plan, provided there is no extension beyond the original expiry date,
  - (iii) add a cashless exercise provision, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the Plan reserve, or
  - (iv) make other amendments of a “housekeeping” or non-material nature with requisite regulatory approval.
- (i) Notwithstanding the foregoing, the approval of the shareholders of the Corporation shall be required for any of the following amendments to an option or the 2014 Option Plan:
  - (i) the limitations on grants of options to insiders and the number of Common Shares that may be reserved for issuance to insiders,
  - (ii) the maximum number or percentage of outstanding Common Shares that may be reserved for issuance upon exercise of options under the 2014 Option Plan,
  - (iii) any amendment which would permit options granted under the 2014 Option Plan to be transferable, other than for estate settlement purposes, or
  - (iv) any amendment to the amendment provisions already voted upon by shareholders.
- (j) Subject to the above paragraph, with the consent of the affected optionees, the Board may amend or modify any outstanding option in any manner to the extent that the Board would have had the authority to initially grant such award as so modified or amended, including without limitation, to change the date or dates as of which an option becomes exercisable, subject to the prior approval of the relevant stock exchanges, if required for such amendment or modification.
- (k) Any reductions in the exercise price or extension of the term of options granted to insiders will require approval of the shareholders of the Corporation excluding votes of securities held by the insiders benefiting from such amendment.
- (l) if the Common Shares are listed on the TSX Exchange options shall not be granted under the 2014 Option Plan or securities be made issuable under any other share compensation arrangement which could result in:
  - (i) the number of Common Shares issuable to insiders exceeding 10% of the issued and outstanding Common Shares at the time of such grant; and
  - (ii) the number of Common Shares issued within any one-year period pursuant to the exercise of options and any other share compensation arrangement to insiders, exceeding 10% of the issued and outstanding Common Shares;
- (m) Common Shares will not be issued unless fully paid and options granted will be fully vested on the date of grant; options granted to consultants providing investor relations services will be subject to vesting provisions as per the policies of the Exchange, if applicable;
- (n) every option granted under the 2014 Option Plan shall be evidenced by a written agreement between the Corporation and the optionee;
- (o) any consolidation or subdivision of Common Shares will be reflected in an adjustment to the Options; and
- (p) any reduction in exercise price of options granted to the Corporation's insiders will be subject to approval of disinterested shareholders of the Corporation.

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 Corporation 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 Corporation is lifted, terminated or removed.

The Directors and Senior Management are eligible to participate in the 2014 Option Plan. The Corporation does not provide any financial assistance to participants in order to facilitate the purchase of Common Shares under the 2014 Option Plan.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No current or former director, executive officer or employee, proposed nominee for election to the Board, or associate of such persons is, or has been, indebted to the Corporation since the beginning of the most recently completed financial year of the Corporation and no indebtedness remains outstanding as at the date of this Management Proxy Circular.

None of the directors or executive officers of the Corporation is or, at any time since the beginning of the most recently completed financial year, has been indebted to the Corporation or its subsidiaries. None of the directors' or executive officers' indebtedness to another entity is, or at any time since the beginning of the most recently completed financial year, has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or its subsidiary, if any.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Other than as described elsewhere in this Proxy Circular, no informed person of the Corporation, proposed director of the Corporation or any associate or affiliate of any informed person or proposed director of the Corporation has had any material interest, direct or indirect, in any transaction since the beginning of the Corporation's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries, if any.

**"Informed person"** means:

- (a) a director or executive officer of the Corporation;
- (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of the Corporation;
- (c) any person or company who beneficially owns, or controls or directs, directly or indirectly, voting securities of the Corporation or a combination of both carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the Corporation other than voting securities held by the person or company as underwriter in the course of a distribution of it; and
- (d) the Corporation has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

#### **MANAGEMENT CONTRACTS**

No management functions of the Corporation were, to any substantial degree, performed by a person other than the directors or executive officers of the Corporation.

#### **CORPORATE GOVERNANCE**

The Corporation is listed on the TSX and discloses its corporate governance practices using the disclosure requirements in National Instrument 58-101, *Disclosure of Corporate Governance Practices* ("**NI 58-101**") that apply to issuers listed on the TSX. The Corporation's statement of corporate governance practices is made with reference to National Policy 58-201, *Corporate Governance Guidelines* and NI 58-101 (collectively, the "**Governance Guidelines**") which are initiatives of the Canadian Securities Administrators ("**CSA**"). The corporate governance practices of the Corporation also conform to the TSX corporate governance guidelines, which have essentially been supplanted by the Governance Guidelines.

## **Board Governance**

The Board has the responsibility for the overall stewardship of the conduct of the business of the Corporation and the activities of management. Management is responsible for the day-to-day conduct of the business. The Board's fundamental objectives are to enhance and preserve long-term shareholder value, and to ensure the Corporation meets its obligations on an ongoing basis and that the Corporation operates in a reliable and safe manner. In performing its functions, the Board considers the legitimate interests that its other stakeholders, such as employees, customers and communities, may have in the Corporation. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, sets the standards of conduct for the Corporation.

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting nominating candidates for election to the Board and constituting committees of the Board. Subject to the Articles and By-Laws of the Corporation the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

## **Board Mandate**

The Board has a written mandate, which is available on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com), which includes responsibility to supervise and evaluate management, to oversee the conduct of the Corporation's business, to set policies appropriate for the business of the Corporation and to approve corporate strategies and goals. The Board is to carry out its mandate in a manner consistent with the fundamental objective of enhancing shareholder value. In discharging its duty of stewardship over the Corporation, the Board expressly undertakes the following specific duties and responsibilities: (i) adopting, supervising and providing guidance on the Corporation's strategic planning process; (ii) identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate internal control and management information systems to effectively monitor and manage those risks with a view to the long-term viability of the Corporation and achieving a proper balance between the risks incurred and the potential return to the Corporation's shareholders; (iii) ensuring that the Corporation has management of the highest calibre and maintaining adequate and effective succession planning for senior management; (iv) placing limits on management's authority; (v) overseeing the integrity of the Corporation's internal control and management information systems; and (vi) overseeing the Corporation's communication policy with its shareholders and with the public generally.

## **Composition of the Board**

The Board is currently comprised of seven (7) directors, five (5) of whom are "independent" directors within the meaning of the Governance Guidelines. A director is "independent" if he is independent of management and has no direct or indirect relationship with the Corporation which could, in the view of the Board, be reasonably expected to interfere with the exercise of the member's independent judgment.

The Board has considered the relationship of each director to the Corporation. At the date of this Proxy Circular, two of the Corporation's directors are not considered to be independent. Messrs. Bond and Andrukaitis were not independent because of their current management positions with the Corporation. Messrs. Hughes, Cass and Crews, Ms. Roach and Mr. Busch are considered to be independent.

Although Messrs. Bond and Andrukaitis are not considered to be independent within the meaning of the Governance Guidelines, the Board has recently instituted a practice whereby at the conclusion of each regularly scheduled meeting of the Board, the Corporation's independent directors may request an in-camera session at which non-independent directors and members of management are not in attendance.

## Board and Committee Meetings – Attendance Record

Below is the attendance record of each director for all Board and Committee meetings held during the period from January 1, 2020 to December 31, 2020:

Director	Board (10 meetings)		Audit (4 meeting)		Compensation (1 meeting)		Corporate Governance and Nominating (2 meeting)	
	No.	% <sup>(1)</sup>	No.	%	No.	%	No.	%
James R. Bond	10	100						
Anthony Andrukaitis	10	100						
Peter Hughes	10	100			1	100		
Paul Cass	10	100	4	100	1	100		
Laura Roach	9	90			1	100	2	100
Phil Dyer	10	100					2	100
Jesse V. Crews	10	100	4	100			2	100
Frank Busch	10	100	4	100				

<sup>(1)</sup> Mr. Dyer resigned as a director and was replaced by Mr. Frank Busch at the February 11, 2020 Board meeting. Both Messrs. Dyer and Busch were in attendance at the February 11 Board meeting. Each of Messrs. Dyer and Busch attended all Board meetings to which they were entitled to attend.

Currently, the following directors serve on the boards of directors of other public companies as listed below:

Director	Public Corporation Board Membership
James R. Bond	SiQ Mountain Industries Inc. (SIQ: TSXV)
Peter Hughes	SIQ Mountain Industries Inc. (SIQ: TSXV); Yuntone Capital Corp. (YTC: TSXV); Gourmet Ocean Products Inc. (GOP: TSXV); Navion Capital Inc. (NAVN.P: TSXV).
Frank Busch	Huntington Exploration Inc. (HEI: TSXV)

Legend:

TSXV= TSX Venture Exchange

## Position Descriptions

The Board has adopted a written position description for each of the Chairman/Lead Director, Chief Executive Officer, a Mandate for the board of directors and an individual director mandate. All of which are available on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com).

## Orientation and Education

Under its mandate, the Corporate Governance and Nominating Committee is responsible for developing and implementing an orientation program for new directors, where necessary. The Board briefs all new directors with respect to the Corporation's operations, information on the role of the board and each of its committees, industry information, corporate governance related materials and other information. Each director is responsible to maintain the skills and knowledge necessary to meet his or her obligations as a director of the Corporation.

Trips to where the Corporation's operations are located are arranged for directors from time to time so they have an opportunity to meet operational management and site personnel.

Board members are encouraged to communicate with management and auditors, to keep themselves current with industry trends and development, and to attend related industry seminars. Board members have full access to the Corporation's records.

## Diversity of the Board and Senior Management

The Corporation recognizes the importance of diversity among the Board to create a diverse and inclusive culture that solicits multiple perspectives and enriches the decision-making process. The Board formally adopted a Diversity Policy in March 2019. In that Policy, the Corporation set out its commitment to diversity with particular emphasis on gender diversity.

Consistent with this commitment, the Board is proposing amendments to the Corporation's Diversity Policy to include representatives of "Designated Groups" as defined in the Employment Equity Act (Canada), which groups include women, Aboriginal peoples, people with disabilities and members of visible minorities. At this time, the Board has not set diversity targets for persons from Designated Groups for either the Board or for senior management as the Corporation has shown good progress on diversity without firm targets. The Board currently has two members or 29% of the Board's composition that identify as representatives of such Designated Groups.

Board appointments will be made on merit, in the context of the skills, experience, independence, knowledge and other qualities which the Board as a whole requires to be effective, with due regard for the benefits of diversity, including the level of representation of the Designated Groups on the Board.

### **Director Retirement Policy and Term Limits**

Each director serves on the Board until the next annual meeting of shareholders of the Corporation or until a successor is duly elected or appointed. The Board does not have a limit on the number of consecutive terms for which a director may serve. While there is a benefit to adding new perspectives to the Board from time to time, there are also benefits to having continuity and directors having in depth knowledge of each facet of the Corporation's business, which necessarily takes time to develop. As such, and given that each member of the Board has had solid experience in the industry, as well as has had experience in acting as a director of public or private companies, or both, the Board believes that the imposition of term limits for its directors may run the risk of excluding experienced and potentially valuable Board members as a result of an arbitrary determination. The Board relies on thorough director assessment procedures for evaluating its members and uses rigorous identification and selection processes for new directors, having regard to a variety of factors. Through these processes, the Board believes that it is well-positioned to address any problems or deficiencies that may arise in an appropriate manner without having to adopt mandated term limits.

### **Ethical Business Conduct**

The Board has adopted a formal written Code of Business Conduct and Ethics (the "Code of Conduct") for its directors, officers and employees.

Individuals governed by the Code of Conduct are required to disclose in writing all business, commercial or financial interests or activities which might reasonably be regarded as creating an actual or potential conflict with their duties. Individuals must avoid all situations in which their personal interest conflicts or might conflict with their duties to the Corporation or with the economic interest of the Corporation. All business transactions with individuals, corporations or other entities that could potentially be considered, directly or indirectly, a related party, must be approved by the Board regardless of the amount involved.

Directors, officers and employees are encouraged to report violations of the Code of Conduct on a confidential and, if preferred, anonymous basis, in accordance with the complaint procedure set out in the Code of Conduct or the Corporation's whistleblower procedures. The Audit Committee may request special treatment for any complaint, including the involvement of the Corporation's external auditors or outside counsel or other advisors. All complaints are required to be documented in writing by the person(s) designated to investigate the complaint, who shall report forthwith to the Chair of the Audit Committee. On an annual basis, or otherwise upon request from the Board, the Code of Conduct requires the Chair of the Audit Committee to prepare a written report to the Board summarizing all complaints received during the previous year, all outstanding unresolved complaints, how such complaints are being handled, the results of any investigations and any corrective actions taken.

A copy of the Corporation's Code of Conduct can be found on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com) and is also available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States

### **Corporate Governance and Nominating Committee of the Board**

The purpose of the Corporate Governance and Nominating Committee is to provide a focus on corporate governance that will enhance corporate performance, and to ensure on behalf of the Board and Shareholders that the

Corporation's corporate governance system is effective in the discharge of its obligations to the Corporation's shareholders.

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

In proposing any candidate for election to the Board, both the Corporate Governance and Nominating Committee and the Board seek to obtain the best possible candidate available, having regard to the current needs of the Board, while recognizing the benefits to the Corporation and its Board of advancing the principles of diversity in all its aspects when determining the composition of the Board. In particular, the Corporate Governance and Nominating Committee and the Board consider the level of representation of women on the Board when identifying and nominating candidates for election or re-election to the Board. When a vacancy occurs on the Board, or the need to add a new Board member is perceived to exist, the Corporate Governance and Nominating Committee will first assess the number and proportion of current directors who are women. Depending on the result of that initial assessment, the Corporate Governance and Nominating Committee takes active steps to seek out potential candidates who are female and gives close consideration to the background, characteristics and capabilities of the female candidates prior to making a final recommendation to the Board. The Corporation has not adopted a formal written policy on the representation of women on the Board, as the Board does not believe that quotas or strict rules will necessarily result in the identification or selection of the best candidates. While the Corporation takes active steps to seek out female candidates to fill existing vacancies, the Board is of the view that it would not be beneficial to the Corporation to impose artificial deadlines for that purpose, or to increase the size of the Board for the sole purpose of adding a director from any specific gender or identity group. The Corporation currently has one female Board member. The Board is also mindful of the potential advantages to broadening the diversity of the Board with reference to factors other than gender and does not wish to constrain itself to considering only one particular factor when conducting searches for Board candidates.

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

- (a) to develop and monitor the Corporation's overall approach to corporate governance issues and, subject to approval by the Board, to implement and administer a system of corporate governance which reflects superior standards of corporate governance practices;
- (b) to report annually to the Corporation's Shareholders, through the Corporation's annual management proxy circular or annual report to Shareholders, on the Corporation's system of corporate governance and the operation of its system of governance;
- (c) to analyze and report annually to the Board the relationship of each director to the Corporation as to whether such director is a related director or an unrelated director; and
- (d) to advise the Board or any of the committees of the Board of any corporate governance issues which the Corporate Governance and Nominating Committee determines ought to be considered by the Board or any such committee.

The Corporation has adopted a formal written mandate for the Corporate Governance and Nominating Committee. The mandate provides that the Corporate Governance and Nominating Committee shall consist of at least three members of the Board, all of whom shall be "independent" within the meaning of NI 58-101. During the most recently completed financial year, the Corporate Governance and Nominating Committee members were Messrs. Crews and Busch and Ms. Roach, all of whom were independent.

The Board appoints the members of the Corporate Governance and Nominating Committee for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the Shareholders of the Corporation. The Board may at any time remove or replace any member of the Corporate Governance and Nominating Committee and may fill any vacancy in the committee. Any Chairperson, either appointed by the Board or designated by a majority of the Committee, shall not serve in such capacity for more than three (3) consecutive terms, unless the Board, in its sole discretion, determines to extend the term of any Chairperson for one (1) additional year.

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

## AUDIT COMMITTEE DISCLOSURE

National Instrument 52-110F1 *Audit Committees Information Required in an AIF* (“NI 52-110”) requires the Corporation to disclose annually in its Annual Information Form (“AIF”) certain information concerning the constitution of its Audit Committee and its relationship with its independent auditor. The Corporation chooses to comply with the requirement to file an AIF by filing a Form 20 F – Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 and disclose the information required by NI 52-110 in this Circular. A copy of the Corporation’s Form 20-F dated March 31, 2021 is available on the Corporation’s website at [www.kelsotech.com](http://www.kelsotech.com) and is also available under the Corporation’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States.

### Audit Committee Charter

The Corporation’s Audit Committee of the Board is governed by an audit committee charter, the text of which is attached as Schedule “A” to this Circular.

The principal purpose of the Audit Committee is to ensure that the Corporation’s management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the consolidated financial statements of the Corporation and to review the Corporation’s compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts on financial and tax related matters.

The Corporation has adopted a formal written charter for the Audit Committee, which is available on the Corporation’s website at [www.kelsotech.com](http://www.kelsotech.com). The charter provides that the Audit Committee shall consist of at least three members of the Board, all of whom shall be “independent” within the meaning of NI 52-110. NI 52-110 provides that a member of an audit committee is “independent” if the member has no direct or indirect relationship with the issuer, which could, in the view of the issuer’s board of directors, reasonably interfere with the exercise of the member’s independent judgment. During the most recently completed financial year, the Audit Committee was composed of three (3) directors: Messrs. Cass, Crews and Busch, all of whom were considered independent.

The Audit Committee meets a minimum of four times a year, including the review of the interim and annual financial statements prior to their submission to the Board. The Audit Committee has direct communication channels with internal personnel responsible for financial statement preparation and with the Corporation’s external auditors. The Audit Committee may also engage independent counsel or other advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

The Board appoints the members of the Audit Committee for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the Corporation’s Shareholders. The Board may at any time remove or replace any member of the Audit Committee and may fill any vacancy in the committee. Any Chairperson, either appointed by the Board or designated by a majority of the Committee, shall not serve in such capacity for more than three (3) consecutive terms, unless the Board, in its sole discretion, determines to extend the term of any Chairperson for one (1) additional year.

### Relevant Education and Experience

#### *Paul Cass*

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. Prior to which 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 holds an MBA and BAsC and is a member of the Association of Professional Engineers and Geoscientists of British Columbia (P.Eng).

*Jesse V. Crews*

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

*Frank Busch*

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

### **Audit Committee Oversight**

Since the commencement of the Corporation's most recently completed financial year, the Corporation's Board has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

### **Reliance on Certain Exemptions**

Since the commencement of the Corporation's most recently completed financial year, the Corporation has not relied on the exemptions contained in sections 2.4 or Part 8 of NI 52-110. Section 2.4 (*De Minimis Non-audit Services*) provides an exemption from the requirement that the Audit Committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the fiscal year in which the non-audit services were provided. Part 8 (*Exemptions*) permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110 in whole or in part.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as set out in the Audit Committee Charter of the Corporation. A copy of the Corporation's Audit Committee Charter is attached as Schedule "A" to this Circular.

### **External Auditor Service Fees**

The aggregate fees billed by the Corporation's external auditor during the fiscal year ended December 31, 2020 and December 31, 2019 by category, are as follows:

<b>Financial Period Ended</b>	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit Related Fees<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
December 31, 2020	\$105,000	\$5,000	\$8,500	-
December 31, 2019	\$90,000	\$15,500	-	-

<sup>(1)</sup> This category includes the fees for the audit of our financial statements and the quarterly reviews of interim financial statements. This category also includes advice on audit and accounting matters that arose during or as a result of the audit or the review of interim financial statements and services in connection with Securities and Exchange Commission filings.

- (2) 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.
- (3) 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.
- (4) 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.

## **Compensation Committee**

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

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

The Corporation has adopted a formal written charter for the Compensation Committee, which is available on the Corporation's website at [www.kelsotech.com](http://www.kelsotech.com). The charter provides that the committee shall consist of at least three members of the Board, a majority of whom shall be "independent" within the meaning of the Governance Guidelines. During the most completed financial year, the Compensation Committee members were Messrs. Hughes, Cass and Ms. Roach. All members of the Compensation Committee are independent.

All members of the Compensation Committee have direct experience which is relevant to their responsibilities as Compensation Committee members. A majority of the members of the Compensation Committee are, or have acted, as a CEO or senior management of a public or private company, and therefore have a good understanding of how compensation works and how to motivate staff. All members have good financial understanding which allows them to assess the costs versus benefits of compensation plans. The members combined experience in the railway or trucking sector provides them with the understandings of the Corporation's success factors and risks which is very important when determining the metrics for measuring success.

The Board appoints the members of the Compensation Committee for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the Corporation'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. Any Chairperson, either appointed by the Board or designated by a majority of the Committee, shall not serve in such capacity for more than three (3) consecutive terms, unless the Board, in its sole discretion, determines to extend the term of any Chairperson for one (1) additional year.

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 Corporation and to such information respecting the Corporation and may engage independent counsel or advisors at the expense of the Corporation, all as it considers to be necessary or advisable in order to perform its duties and responsibilities.

## **Assessment of the Board**

Prior to the preparation of this Circular the Corporate Governance and Nominating Committee distributed a Board effectiveness assessment to directors. This assessment questions members as to their level of satisfaction with the functioning of the Board, its interaction with management and the performance of the standing committees of the Board. Board members conduct peer reviews and a self assessment regarding their effectiveness as a Board member as part of this assessment process. To ensure the assessment process is candid, the individual assessments are returned on a confidential basis to the Chair of the Corporate Governance and Nominating Committee with a copy to the Corporate Secretary. The results are compiled for the Corporate Governance and Nominating Committee. The Committee reviews and discusses the results and makes recommendations to the Board regarding any action that may be deemed necessary or advisable to ensure the Board continues to function effectively and

adequately perform its mandate. The Board aims for a 100% compliance rate for completion of the assessment by directors, which was achieved this year. The peer reviews and self-assessments by Directors are considered as part of the director nomination process.

## **PARTICULARS OF OTHER MATTERS TO BE ACTED UPON**

### **Approval of Restricted Share Unit Plan**

The Board has adopted the RSU Plan for the benefit of the Corporation's employees, directors and consultants. The RSU Plan has been established to assist the Corporation 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 Corporation of Common Shares under the RSU Plan, to better align the interests of participants with the long-term interests of 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 Corporation'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.

At the Meeting, Shareholders will be asked to approve a resolution to approve the RSU Plan as a treasury based plan and to reserve Common Shares from treasury for issuance under the RSU Plan. In order to be approved, the resolution must be passed by a majority of the votes cast by the holders of the Common Shares present in person or represented by proxy at the Meeting, excluding the votes attached to Common Shares beneficially owned by insiders of the Corporation to whom RSUs may be granted under the RSU Plan and their associates. If the resolution approving the RSU Plan is not approved by disinterested shareholders at the Meeting, the RSU Plan will not become effective.

#### *Summary of the RSU Plan*

Set out below is a summary of the RSU Plan. A copy of the RSU Plan may be inspected at the registered office of the Corporation, Clark Wilson LP, Suite 900, 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1 during normal business hours and at the Meeting. In addition, a copy of the RSU Plan will be mailed, free of charge, to any holder of Common Shares who requests a copy, in writing, from the Corporate Secretary of the Corporation. Any such requests should be mailed to the Corporation, at its head office, to the attention of the Corporate Secretary.

#### *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 Corporation and its designated subsidiaries are eligible to participate in the RSU Plan. In accordance with the terms of the RSU Plan, the Corporation, 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 Corporation. 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 Compensation 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 (subject to the Shareholder approval being sought at this Meeting), 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 Corporation). 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 Corporation's Common Shares before the issuance of the RSUs; (ii) if the Corporation'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 Corporation 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 Corporation'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 Corporation'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 Corporation 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 Corporation'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 Corporation 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*

Following receipt of the Shareholder approval contemplated hereunder 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 Corporation 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.

The TSX has conditionally approved the treasury-based aspects of the RSU Plan, subject to approval of the Shareholders.

Shareholders will be asked to pass an ordinary resolution, in substantially the following form to approve the RSU Plan:

**“BE IT RESOLVED AS AN ORDINARY RESOLUTION, THAT:**

1. the Restricted Share Unit Plan allowing for the issuance of a maximum of 5% of the total number of issued and outstanding Common Shares on a non-diluted basis from treasury, as described in the Corporation’s Proxy Circular dated May 4, 2021, be and is hereby approved;
2. the unallocated entitlements are hereby approved and the Corporation will have the ability to issue Restricted Share Units which may be settled in Common Shares; and
3. any director or officer of the Corporation be and is hereby authorized, for and on behalf of the Corporation, to do all such things and execute all such documents and instruments as may be necessary or desirable to give effect to this resolution.”

The directors of the Corporation believe the passing of the foregoing ordinary resolution is in the best interests of the Corporation and recommend that Shareholders of the Corporation vote in favor of the resolution.

The persons named as proxies in the enclosed Proxy intend to cast the votes represented by proxy in favor of the foregoing resolution unless the holder of Common Shares who has given such proxy has directed that the votes be otherwise cast.

### **Approval of Non-Employee Directors Deferred Share Unit Plan**

The Board has adopted the DSU Plan for the benefit of the Corporation's non-executive directors of which currently there are five. The DSU Plan has been established to assist the Corporation in the recruitment and retention of qualified persons to serve on the Board and, through the proposed issuance by the Corporation 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 Corporation'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.

At the Meeting, Shareholders will be asked to approve a resolution to approve the DSU Plan as a treasury-based plan and to reserve Common Shares from treasury for issuance under the DSU Plan. In order to be approved, the resolution must be passed by a majority of the votes cast by the holders of the Common Shares present in person or represented by proxy at the Meeting, excluding the votes attached to Common Shares beneficially owned by insiders of the Corporation to whom DSUs may be granted under the DSU Plan and their associates. If the resolution approving the DSU Plan is not approved by disinterested shareholders at the Meeting, the DSU Plan will not become effective.

#### *Summary of the DSU Plan*

Set out below is a summary of the DSU Plan. A copy of the DSU Plan may be inspected at the registered office of the Corporation, Clark Wilson LP, Suite 900, 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1 during normal business hours and at the Meeting. In addition, a copy of the DSU Plan will be mailed, free of charge, to any holder of Common Shares who requests a copy, in writing, from the Corporate Secretary of the Corporation. Any such requests should be mailed to the Corporation, at its head office, to the attention of the Corporate Secretary.

#### *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 Corporation, 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 Corporation (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 Corporation's Common Shares before the issuance of the Share Units; (ii) if the Corporation'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 Corporation. 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 Corporation 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 Corporation and its subsidiaries and is no longer otherwise employed by the Corporation 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 Corporation 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 Corporation'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 Corporation'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*

Following receipt of the Shareholder approval contemplated hereunder, 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.

The TSX has conditionally approved the treasury-based aspects of the DSU Plan, subject to approval of the Shareholders.

Shareholders will be asked to pass an ordinary resolution, in substantially the following form to approve the DSU Plan:

**“BE IT RESOLVED AS AN ORDINARY RESOLUTION, THAT:**

1. that the Non-Employee Directors Deferred Share Unit Plan allowing for the issuance of a maximum of 2% of the total number of issued and outstanding Common Shares on a non-diluted basis, as described in the Corporation’s Proxy Circular dated May 4, 2021, be and is hereby approved;
2. the unallocated entitlements are hereby approved and the Corporation will have the ability to issue Deferred Share Units which may be settled in Common Shares; and
3. any director or officer of the Corporation be and is hereby authorized, for and on behalf of the Corporation, to do all such things and execute all such documents and instruments as may be necessary or desirable to give effect to this resolution.”

The directors of the Corporation believe the passing of the foregoing ordinary resolution is in the best interests of the Corporation and recommend that Shareholders of the Corporation vote in favor of the resolution.

The persons named as proxies in the enclosed Proxy intend to cast the votes represented by proxy in favor of the foregoing resolution unless the holder of Common Shares who has given such proxy has directed that the votes be otherwise cast.

Management of the Corporation knows of no other matters to come before the Meeting other than those referred to in the Notice of Meeting. However, if any other matters that are not known to management should properly come before the Meeting, the accompanying form of proxy confers discretionary authority upon the persons named therein to vote on such matters in accordance with their best judgment.

**ADDITIONAL INFORMATION**

The Board approves the Corporation’s annual Financial Statements and annual MD&A, interim quarterly reports to shareholders and the content of the Corporation’s other significant public disclosure documents. These and other prescribed documents are available on the Corporation’s website at [www.kelsotech.com](http://www.kelsotech.com) and are also available under the Corporation’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada and on EDGAR at [www.sec.gov](http://www.sec.gov) in the United States. Also available on the Corporation’s website are copies of the mandate for the Chairman and Lead Director as well as the Corporation’s Board mandate.

The Corporation maintains a corporate website at [www.kelsotech.com](http://www.kelsotech.com) that includes, among other things, an investors section containing past annual and quarterly reports and press releases. Financial information regarding the Corporation is provided in the annual financial statements and annual MD&A for the period ended December 31, 2020. The Corporation will provide, at no charge to the shareholder, a copy of its latest Financial Statements and MD&A for the year ended December 31, 2019, interim quarterly reports for subsequent periods, and a copy of this Proxy Circular upon request to the to the Corporation as follows:

- (i) e-mail: [klove@kelsotech.com](mailto:klove@kelsotech.com)
- (ii) telephone: 1 (250) 212-4318
- (iii) mail: Kelso Technologies Inc.  
13966 18B Avenue  
Surrey, British Columbia, Canada V4A 8J1  
Attn: Corporate Development

## **DIRECTORS' APPROVAL**

The contents and the distribution of this Proxy Circular to the Shareholders of the Corporation has been approved by the Board.

**BY ORDER OF THE BOARD OF DIRECTORS  
KELSO TECHNOLOGIES INC.**

*“James R. Bond”*

James R. Bond,  
President, Chief Executive Officer and Director

Dated: May 4, 2021

**SCHEDULE “A”**  
**MANDATE OF THE AUDIT COMMITTEE**

(Amended, restated and adopted by the Board of Directors on March 16, 2020, reviewed and amended on April 28, 2021)

**1. MANDATE**

The Audit Committee (the “Committee”) will assist the Board of Directors (the “Board”) of Kelso Technologies Inc. (the “Corporation”) in fulfilling its financial oversight responsibilities. The Committee will review and consider, in consultation with the Corporation’s external auditors, the accounting and financial reporting process, the system of internal control over financial reporting and the audit process. In performing its duties, the Committee will maintain effective working relationships with the Board, management and the external auditors. To effectively perform his or her role, each Committee member must obtain an understanding of the principal responsibilities of Committee membership as well as the Corporation’s business, operations and risks.

**2. COMPOSITION**

The Board will appoint, from among their membership, a Committee after each annual meeting of the shareholders of the Corporation. The Committee will consist of a minimum of three directors.

The Board may remove a member of the Committee at any time in its sole discretion by resolution of the Board. Unless a Chairperson is appointed by the Board, the members of the Committee may designate a Chairperson by majority vote of the Committee.

Any Chairperson, either appointed by the Board or designated by a majority of the Committee, shall not serve in such capacity for more than three (3) consecutive terms, unless the Board, in its sole discretion, determines to extend the term of any Chairperson for one (1) additional year.

2.1 Independence

Each member of the Committee must be “independent”, as defined in Sec. 1.4 of National Instrument 52-110 (Audit Committees) (“NI 52-110”) and in accordance with Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended (“Rule 10A-3”).

2.2 Expertise of Committee Members

A majority of the members of the Committee must be “financially literate” (as defined in Sec. 1.6 of NI 52-110) or must become financially literate within a reasonable period of time after his or her appointment to the Committee, and each member must be financially literate in accordance with Rule 10A-3. At least one member of the Committee must have accounting or related financial management expertise in accordance with Rule 10A-3 and be considered an audit committee financial expert as defined in Item 407(d)(5)(ii) and (iii) of Regulation S-K.

**3. MEETINGS**

The Committee shall meet in accordance with a schedule established each year by the Board, and at other times that the Committee may determine. The Committee shall meet at least annually with the Corporation’s Chief Financial Officer and external auditors in separate executive sessions.

**4. ROLES AND RESPONSIBILITIES**

The Committee shall fulfill the following roles and discharge the following responsibilities:

4.1 External Audit

The Committee shall be directly responsible for appointing, compensating, retaining and overseeing the work of the external auditors in preparing or issuing the auditor’s report, or performing other audit, review or attestation

services, including the resolution of disagreements between management and the external auditors regarding financial reporting. In carrying out this duty, the Committee shall:

- (a) recommend to the Board that the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation;
- (b) review (by discussion and enquiry) the external auditors' proposed audit scope and approach;
- (c) review the performance of the external auditors and recommend to the Board the appointment, retention or discharge of the external auditors;
- (d) review and recommend to the Board the compensation to be paid to the external auditors;
- (e) resolve disagreements between management and the external auditor regarding financial reporting;
- (f) ensure receipt from the external auditors of a formal written statement delineating all relationships between the external auditors and the Company and actively engage in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors;
- (g) review and confirm the independence of the external auditors by reviewing the non-audit services provided and the external auditors' assertion of their independence in accordance with professional standards;
- (h) take or recommend that the Board take appropriate action to oversee the independence of the external auditors; and
- (i) review and approve the Corporation's hiring policies regarding partners and employees, and former partners and employees, of the present and former external auditor of the Corporation.

#### 4.2 Internal Control

The Committee shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the Corporation. In carrying out this duty, the Committee shall:

- (a) evaluate the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Corporation; and
- (b) ensure that the external auditors discuss with the Committee any event or matter which suggests the possibility of fraud, illegal acts or deficiencies in internal controls.

#### 4.3 Financial Reporting

The Committee shall review the financial statements and financial information of the Corporation prior to their release to the public. In carrying out this duty, the Committee shall:

##### General

- (a) review significant accounting and financial reporting issues, especially complex, unusual and related party transactions; and
- (b) review and ensure that the accounting principles selected by management in preparing financial statements are appropriate.

#### Annual Financial Statements

- (a) review the draft annual financial statements and provide a recommendation to the Board with respect to the approval of the financial statements;
- (b) meet with management and the external auditors to review the financial statements and the results of the audit, including any difficulties encountered; and
- (c) review management's discussion & analysis respecting the annual reporting period prior to its release to the public.

#### Interim Financial Statements

- (a) review and approve the interim financial statements prior to their release to the public; and
- (b) review management's discussion & analysis respecting the interim reporting period prior to its release to the public.

#### Release of Financial Information

- (a) where reasonably possible, review and approve all public disclosure containing financial information, including news releases, prior to release to the public. The Committee must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must periodically assess the adequacy of those procedures.

#### 4.4 Non-Audit Services

All non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Corporation or any subsidiary of the Corporation shall be subject to the prior approval of the Committee.

#### Delegation of Authority

- (a) The Committee may delegate to one or more independent members of the Committee the authority to approve non-audit services, provided any non-audit services approved in this manner must be presented to the Committee at its next scheduled meeting.

#### De-Minimis Non-Audit Services

- (a) The Committee may satisfy the requirement for the pre-approval of non-audit services if:
  - (i) the aggregate amount of all non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiaries to the external auditor during the fiscal year in which the services are provided; or
  - (ii) the services are brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals has been delegated.

#### Pre-Approval Policies and Procedures

- (a) The Committee may also satisfy the requirement for the pre-approval of non-audit services by adopting specific policies and procedures for the engagement of non-audit services, if:

- (i) the pre-approval policies and procedures are detailed as to the particular service;
- (ii) the Committee is informed of each non-audit service; and
- (iii) the procedures do not include delegation of the Committee's responsibilities to management.

#### 4.5 Other Responsibilities

The Committee shall:

- (a) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters;
- (b) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (c) ensure that significant findings and recommendations made by management and the external auditor are received and discussed on a timely basis;
- (d) review the policies and procedures in effect for considering officers' expenses and perquisites;
- (e) perform other oversight functions as requested by the Board from time to time;
- (f) oversee and annually review the Corporation's Code of Business Conduct and Ethics as well as the Corporation's:
  - Blackout Period Policy
  - Internal Employee Alert Policy
  - Anti-Bribery and Anti-Corruption Policyand receive approval of any changes to such policies from the Board.
- (g) annually review and reassess the adequacy of this Mandate; and
- (h) update this Mandate and receive approval of changes to this Mandate from the Board.

#### 4.6 Reporting Responsibilities

The Committee shall regularly update the Board about Committee activities and make appropriate recommendations.

### **5. RESOURCES AND AUTHORITY OF THE AUDIT COMMITTEE**

The Committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for the external auditor and any advisors employed by the Committee;
- (c) pay ordinary administrative expenses that are necessary or appropriate in carrying out its duties; and
- (d) communicate directly with the internal and external auditors.

## 6. GUIDANCE – ROLES & RESPONSIBILITIES

The Committee should consider undertaking the actions described in the following guidance, which is intended to provide the Committee members with additional guidance on fulfilment of their roles and responsibilities on the Committee:

### 6.1 Internal Control

- (a) evaluate whether management is setting the goal of high standards by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities,
- (b) focus on the extent to which external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of an IT systems breakdown, and
- (c) gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

### 6.2 Financial Reporting

#### General

- (a) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- (b) ask management and the external auditors about significant risks and exposures and the plans to minimize such risks; and
- (c) understand industry best practices and the Corporation's adoption of them.

#### Annual Financial Statements

- (a) review the annual financial statements and determine whether they are complete and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles in light of the jurisdictions in which the Corporation reports or trades its shares;
- (b) pay attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;
- (c) focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; warranty, professional liability; litigation reserves; and other commitments and contingencies;
- (d) consider management's handling of proposed audit adjustments identified by the external auditors; and
- (e) ensure that the external auditors communicate all required matters to the Committee.

#### Interim Financial Statements

- (a) be briefed on how management develops and summarizes interim financial information and the extent to which the external auditors review interim financial information;
- (b) meet with management and the auditors, either telephonically or in person, to review the interim financial statements;

- (c) to gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:
  - (i) actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
  - (ii) changes in financial ratios and relationships of various balance sheet and operating statement figures in the interim financials statements are consistent with changes in the Corporation's operations and financing practices;
  - (iii) generally accepted accounting principles have been consistently applied;
  - (iv) there are any actual or proposed changes in accounting or financial reporting practices;
  - (v) there are any significant or unusual events or transactions;
  - (vi) the Corporation's financial and operating controls are functioning effectively;
  - (vii) the Corporation has complied with the terms of loan agreements, security indentures or other financial position or results dependent agreements; and
  - (viii) the interim financial statements contain adequate and appropriate disclosures.

### 6.3 Compliance with Laws and Regulations

- (a) periodically obtain updates from management regarding compliance with this policy and industry "best practices";
- (b) be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements;
- (c) review the findings of any examinations by securities regulatory authorities and stock exchanges; and
- (d) be satisfied that the Corporation has adequate policies, procedures and practices for the maintenance of the books, records and accounts by the Corporation with respect to third party payments in compliance with applicable laws, including, without limitation, the *Corruption of Foreign Public Officials Act* (Canada) and the United States *Foreign Corrupt Practices Act*.

### 6.4 Other Responsibilities

- (a) review with the Corporation's counsel, any legal matters that could have a significant impact on the Corporation's financial statements.

*This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the committees of the Board assist the Board in directing the affairs of the Corporation. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Corporation's articles, it is not intended to establish any legally binding obligations.*