

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2020

OR

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

OR

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

Date of event requiring this shell company report N/A

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

Commission file number 001-36685

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

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

British Columbia, Canada
(Jurisdiction of incorporation or organization)

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

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

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

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

Nil
(Title of Class)

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

Not Applicable
(Title of Class)

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

47,170,086 common shares without par value outstanding on December 31, 2020.
There were no Class A non-cumulative preference shares outstanding on December 31, 2020.

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

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

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

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

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

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]
Emerging growth company []

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

ITEM 17 ITEM 18

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

Under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), Kelso Technologies Inc. is classified as an "Emerging Growth Company." Under the JOBS Act, Emerging Growth Companies are exempt from certain reporting requirements, including the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. Under this exemption, the company's auditor will not be required to attest to and report on management's assessment of the company's internal controls over financial reporting. The company is also exempt from certain other requirements, including the requirement to adopt certain new or revised accounting standards until such time as those standards would apply to private companies. The company will remain an Emerging Growth Company for up to the last day of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities pursuant to an effective registration statement under the Securities Act of 1933, although it will lose that status earlier if revenues exceed US\$1 billion, or if the company issues more than US\$1 billion in non-convertible debt in a three year period, or the company will lose that status on the date that it is deemed to be a large accelerated filer. Emerging Growth Companies have less than \$1,070,000,000 in annual gross revenues.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

COVID-19 IMPACT UPDATE ON NORTH AMERICAN OPERATIONS

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

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

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

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

Name and Office Held	Function
James R. Bond <i>Director, President and Chief Executive Officer</i>	As President and Chief Executive Officer, Mr. Bond is responsible for strategic planning and operations, as well as managing the Company's relations with the Company's legal advisers, regulatory authorities and the investment community; as a director, Mr. Bond participates in management oversight and helps to ensure compliance with the Company's corporate governance policies and standards.
Peter Hughes <i>Director and Lead Director</i>	As an independent director, Mr. Hughes supervises the Company's senior management and Board and helps to ensure compliance with the Company's corporate governance policies and standards.
Anthony ("Tony") Andrukaitis <i>Director and Executive Vice President Business Development and Chief Operating Officer</i>	As a director, Mr. Andrukaitis supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards. As Vice President Business Development and COO, Mr. Andrukaitis is responsible for the daily operations of the Company's plant in Bonham, Texas and will continue to take an active management role in pursuing growth of business opportunities, including mergers and acquisitions.
Edward Paul ("Paul") Cass <i>Director and Audit Committee Member</i>	As an independent director, Mr. Cass supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Laura Roach <i>Director</i>	As an independent director, Ms. Roach supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Jesse V. Crews <i>Director and Audit Committee Member</i>	As an independent director, Mr. Crews supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Frank Busch <i>Director and Audit Committee Member</i>	As an independent director, Mr. Busch supervises the Company's management and helps to ensure compliance with the Company's corporate governance policies and standards.
Richard Lee <i>Chief Financial Officer</i>	As the Company's Chief Financial Officer, Mr. Lee is responsible for the management and supervision of all financial aspects of the Company's business.
Chris Stewart President of KIQ X Industries Inc.	As President of the Company's wholly owned subsidiary, KIQ X Industries Inc. Mr. Stewart is responsible for all aspects of the KXI Suspension System project.

The business address for the Company is 13966 18B Avenue, Surrey, British Columbia, Canada V4A 8J1.

Advisers

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

Auditors

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

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

Prepared In Accordance With IFRS

The following table summarizes selected financial data for the Company for the years ended December 31, 2020, 2019 and 2018 prepared in accordance with IFRS, as issued by the IASB. The information in the table was extracted from the consolidated financial statements and related notes included in this annual report and should be read in conjunction with such financial statements and with the information appearing under the heading, “Item 5 – Operating and Financial Review and Prospects” beginning at page 21 below.

Selected Financial Data

Statements of Income (Loss) Data	Year ended December 31, 2020 (audited) (\$)	Year ended December 31, 2019 (audited) (\$)	Year ended December 31, 2018 (audited) (\$)
Revenues	11,149,130	20,550,682	12,716,596
Gross Profit	4,792,678	9,582,879	5,287,216
Net Income/(Loss) and Comprehensive Income/(Loss)	(1,307,890)	3,334,043	194,453
Basic and Diluted Earning/(Loss) per Share	(0.03)	0.07	0.00

Statement of Financial Position Data	As at December 31, 2020 (audited) (\$)	As at December 31, 2019 (audited) (\$)	As at December 31, 2018 (audited) (\$)
Assets	12,016,515	13,731,571	9,944,990
Current Liabilities	958,086	1,795,745	1,779,256
Shareholders' Equity/(Deficiency)	10,960,923	11,845,275	8,165,734
Capital Stock	23,366,542	23,366,542	23,366,542
(Deficit)/Retained Earnings	(17,067,466)	(15,759,576)	(19,093,619)
Outstanding Common Shares	47,170,086	47,170,086	47,170,086

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

"Covid-19"

On March 11, 2020, the World Health Organization declared the ("COVID-19") outbreak a pandemic creating an unprecedented global health and economic crisis. COVID-19's impact on global markets has been significant through December 2020 and remains so as at the date of this annual report. The situation continues to rapidly evolve. The duration and magnitude of COVID-19's effects on the economy, and on the Company's financial and operational performance remains uncertain at this time.

The Company will continue to closely monitor the potential impact of the COVID-19 on the Company's business. Should the duration, spread or intensity of the COVID-19 pandemic further deteriorate in 2021, there could be a potentially material and negative impact on the Company's operating plans, the Company's liquidity and cash flows, and the valuation of the Company's long-lived assets, potential future decreases in revenue from the sale of the Company's products and the profitability of the Company's ongoing operations.

Risks Relating to the Business

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

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

The Company has obtained patents for the Company's external constant force spring pressure relief valves and a one-bolt manway system, vacuum relief valve and bottom outlet valve. If the Company is unable to secure trademark and patent protection for the Company's intellectual property in the future, or that protection is inadequate for future products, the Company's business may be materially adversely affected.

Further, there is no assurance that the Company's railroad equipment products and other aspects of the Company's business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. Although the Company is not aware of any such claims, the Company may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of the Company's business. If the Company is found to have violated the intellectual property rights of others, the Company may be enjoined from using such intellectual property, and the Company may incur licensing fees or be forced to develop alternatives. In addition, the Company may incur substantial expenses and diversion of management time in defending against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against the Company may result in substantial monetary liabilities, which may materially and adversely disrupt the Company's business.

"The Company may be unable to secure or maintain regulatory qualifications for the Company's products."

The Association of American Railroads ("AAR") has specific adoption criteria that must be met before the Company's products can be utilized by customers in the railroad industry. The Company has been successful in obtaining AAR approvals for the Company's key products; however, there is no guarantee that the Company's products will continue to meet AAR standards and adoption criteria as they evolve or that new products developed by the Company will receive AAR approval. In addition, certain customers may have specific adoption criteria beyond what is required by the AAR, and there is no guarantee that the Company will be able to cater to these

specific adoption criteria. The Company's failure to meet AAR and customer adoption criteria could have a material negative impact on the Company's ability to obtain purchase orders and generate revenue.

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

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

Although the Company had a positive working capital in the amount of \$6,251,893 as at December 31, 2020, the Company can, from time to time, face a working capital deficit. To maintain the Company's activities, the Company may require access to additional capital through the sale of securities or obtaining debt financing. There can be no assurance that the Company will be successful in obtaining such additional financing and failure to do so could result in the inability of the Company to develop new products; meet production schedules; execute delivery orders; and continue the Company's operations.

Given the unpredictable COVID-19 economic circumstances, Management carefully assessed the Company's future capital needs at year end. The sharp decline of the Company's revenues in 2020 compromised the Company's available capital reserves to fund the Company's 2021 business affairs. It was determined that the Company should access new equity capital to ensure that Kelso has adequate working capital to service the Company's 2021 and 2022 needs. Subsequent to December 31, 2020, the Company completed a private placement whereby 7,000,000 units were issued at a price of CAD\$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD\$1.15 on or before 4:00 p.m. (Vancouver time) on March 4, 2022 and CAD\$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length and the transaction did not materially affect control of the Company. Capital resources are now expected to protect the Company's ability to conduct ongoing business operations as planned for the foreseeable future.

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

The Company has a limited history of earnings. The Company is subject to all of the business risks and uncertainties associated with any business enterprise which is transitioning from product development to profitable operations, including the risk that the Company will not achieve the Company's growth objectives.

There is no assurance that the Company will be able to successfully complete the Company's business development plans or operate profitably over the short or long-term. The Company is dependent upon the good faith and expertise of Management to identify, develop and operate commercially viable product lines. No assurance can be given that the Company's efforts will result in the development of additional commercially viable product lines or that the Company's current product lines will prove to be commercially viable in the long-term. If the Company's efforts are unsuccessful over a prolonged period of time, the Company may have insufficient working capital to continue to meet ongoing obligations and the Company's ability to obtain additional financing necessary to continue operations may also be adversely affected. Even if the Company is successful in developing one or more additional product lines, there is no assurance that these product lines or the Company's existing product lines will be profitable.

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

Markets for the Company's products may not develop as quickly as anticipated, or at all, resulting in the Company being unable to meet the Company's revenue and production targets. This may have a material negative impact on the Company, particularly if the Company has incurred significant expenses to cater to increased market demand and such market demand does not materialize.

“Unforeseen competition could affect the Company’s ability to grow revenues as projected.”

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

“Customer orders that are placed may be cancelled or rescheduled.”

Although the Company makes efforts to ensure customers are satisfied with the Company’s products, there is a risk that customers may cancel purchase orders before they are filled. This may have a material negative impact on the Company, particularly if the Company has already ordered the component parts required to assemble the finished products for that order or if the Company has assembled the required finished products. The negative impact may be mitigated by the Company’s ability to utilize the component parts and finished products to satisfy other purchase orders, but there is no guarantee that the Company will be able to mitigate the risk of loss to the Company from cancelled orders in this manner.

“The Company is dependent on a small number of OEM customers.”

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

“Current products may not perform as well as expected.”

There is a risk that the Company’s products may not perform as well as expected, which may result in customer complaints, returned products, product recalls and/or loss of repeat customer orders. Any one of these effects may have a material negative impact on the Company’s ability to generate revenue and continue operations.

“There may be a shortage of parts and raw materials.”

The Company currently has multiple suppliers in the United States and Canada for each of the component parts and raw materials required to assemble the Company’s finished products. There is a potential risk that, from time to time, the Company could face a shortage of parts and raw materials in the future if the Company’s suppliers are unable to support current or increased customer demand for the Company’s products. This could have a material negative impact on the business development plans of the Company, the Company’s revenues and continued operations.

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

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

“The Company’s product development efforts may not result in new qualified commercial products.”

The Company’s ambition to design research and develop new products for the railroad industry and outback terrain vehicle suspension market and to successfully develop new markets for the Company’s products in other industries, such as the trucking industry, may not result in commercially accepted products or applications. This may have a negative impact on the Company as the Company’s current products may cease to be best-available technology and the Company may not have a replacement or alternative product offering. The Company’s investment in new product research and development is written off in the period in which it is incurred to account for the unpredictable nature of R&D projects.

“The Company may face uninsurable or underinsured risks.”

In the course of development and production of railroad equipment products, certain risks, and in particular, destruction of production facilities by a natural disaster, acts of terrorism, acts of war or patent infringement may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. Of the above listed risks, only an act of war is truly uninsurable. The Company maintains commercial general liability insurance for claims up to \$4,000,000 in aggregate and \$1,000,000 per incident, as well as product liability insurance for claims up to \$4,000,000 in aggregate and \$1,000,000 per incident.

Although the Company believes that the insurance policies currently in place adequately insure the Company given the size of the Company’s customer base and revenues from product sales, there is a risk that the Company’s insurance coverage may not be sufficient to cover future products claims.

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

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

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

The future success of the Company heavily depends upon the continued services of the Company’s senior executives and other key employees. In particular, the Company relies on the expertise and experience of the Company’s Chief Executive Officer and Chief Financial Officer and the Chief Operating Officer of Kelso Technologies Inc., Kelso Technologies (USA) Inc., KIQ X Industries Inc., KIQ Industries Inc., Kel-Flo Industries Inc. (formerly Kelso Innovative Solutions Inc.) and KXI Wildertec Industries Inc. These individuals are under contractual obligations to the Company expiring on June 30, 2023, however, if one or more of the Company’s senior executives were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. If any of the Company’s senior executives joins a competitor or forms a competing company, the Company may lose clients, suppliers, key professionals, technical know-how and staff members.

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

Item 4. Information on the Company

A. History and Development of the Company

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

The Company’s registered office is located at Suite 900 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1. The Company’s corporate head office is located at 13966 18B Avenue, Surrey, British Columbia V4A 8J1. The Company’s head office telephone number is (604) 590-1525.

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

The Common Shares have been publicly traded on the Toronto Stock Exchange (“**TSX**”) under the symbol “**KLS**” since May 22, 2014, prior to which the Common Shares traded on the TSX Venture Exchange (“**TSXV**”). The Common Shares have traded on the NYSE American (“**NYSE American**”) under the symbol “**KIQ**” since October 14, 2014, prior to which the Common Shares traded on the U.S. OTCQX over the counter market (“**OTCQX International**”) under the symbol “**KEOSF**”.

The Company operates in conjunction with the Company’s five wholly-owned subsidiaries Kelso Technologies (USA) Inc. (“**KTI**”), Kel-Flo Industries Inc., (“**Kel-Flo**”); KIQ Industries Inc. (“**KIQ**”); KIQ X Industries Inc. (“**KIQX**”) and KXI Wildertec Industries Inc. (“**KXI**”). The Company owns 100% of the voting securities of each of the Company’s subsidiaries. None of the subsidiaries has a class of restricted securities. KTI was incorporated on August 3, 2005 in the State of Nevada for potential use for operations in the United States. KIQ was incorporated on October 7, 2014 in the State of Nevada for the purpose of working on the general development of new equipment concepts should they develop market interest. Kel-Flo was incorporated on June 20, 2012 in the State of Nevada and is used as a structure to pursue the development of high-speed no-spill fuel loading technologies for locomotives. KIQX was incorporated on December 12, 2017 in the Province of British Columbia, Canada as an operating subsidiary for the development, production and sales of the Company’s proprietary KXI vehicle suspension system for wilderness terrain vehicles. KXI is currently an inactive corporation.

General Development of the Business

General

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

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

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

The Company's unaudited revenues over the last eight quarters were as follows: \$1,394,958 for the quarter ended December 31, 2020; \$1,586,206 for the quarter ended September 30, 2020; \$2,524,538 for the quarter ended June 30, 2020; \$5,643,428 for the quarter ended March 31, 2020; \$5,303,193 for the quarter ended December 31, 2019; \$5,596,031 for the quarter ended September 30, 2019; \$3,977,170 for the quarter ended June 30, 2019; \$5,674,288 for the quarter ended March 31, 2019.

The Company's unaudited net income (loss) over the last eight quarters were as follows:(\$1,655,230) for the quarter ended December 31, 2020; (\$681,527) for the quarter ended September 30, 2020; (\$254,428) for the quarter ended June 30, 2020; \$1,283,295 for the quarter ended March 31, 2020; \$1,242,539 for the quarter ended December 31, 2019; \$759,713 for the quarter ended September 30, 2019; \$240,887 for the quarter ended June 30, 2019; \$1,090,904 for the quarter ended March 31, 2019.

Three Year History

2018

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

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

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

In May 2018 Kelso had substantially completed its concept designs for its vehicle prototype featuring its proprietary Active Suspension Control Systems ("ASCS"). Effective June 1, 2018 the Company secured a leased 3,400 square foot business facility in Kelowna, BC, Canada with the goal to operate administration, marketing, driver education, spare parts, repairs and maintenance, sales, distribution and product development. For convenience and efficiency, these premises are located several blocks from our sub-contracted production facilities.

The ASCS has been developed with emphasis on providing distinct advantages to customers in terms of better safety characteristics and more effective operational capabilities while mitigating the impact of human error and environmental damage in outback operations. The ASCS is ideal for customers who need to traverse rough outback terrain in a wheeled vehicle for the purpose of reaching remote destinations with multiple passengers and maximum payload. Although designed for commercial use it is well suited for both industry and leisure markets.

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

vehicle will have minimum environmental impact on outback operations due to the distribution of the overall weight of the vehicle.

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

Initial production tooling and supply chain was initiated in the second half of 2018. Experimental prototypes were commenced and completed in late 2018. The prototypes were being tested in road-to-no-road rugged terrain environments to determine production requirements and specifications.

2019

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

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

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

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

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

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

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

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

2020

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

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

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

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

On February 11, 2020, Mr. Frank C. Busch was appointed to the Board of Directors of the Company, as an independent Director to fill the vacancy created by the resignation of Mr. Phil Dyer. Mr. Dyer continues to serve the Company as an advisor.

In May 2020, the Association of American Railroads (AAR) approved the Company's new standard profile (4") bottom outlet valve with a ceramic ball (BOV) for commercial field service trial testing. The standard profile BOV field service trial joined the Company's low-profile bottom outlet valve currently in field service trial testing, completion of which is required for final AAR approvals. Kelso is committed to complete the field service trials of both low and standard profile BOV.

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

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

Financial performance in 2020 suffered due to a 46% decline in sales activity over the prior year but operating expenses were reduced by 5% which allowed Kelso to stay cash flow positive (net of non-cash charges). This economic decline clearly highlighted the seriousness of the potential threat to the Company's business survival. The

OEM rail tank car producers went into hibernation in April 2020 and have yet to return in a meaningful way but the retrofit and repair business remained open allowing the continuation the Company's operations. Industry analysts (Freight Transportation Research ("FTR") Associates) anticipate that the OEM producers will return to production in 2021 and revenue streams from rail should begin to improve in the back half of 2021 and carry new momentum into 2022 and 2023.

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

Subsequent to Fiscal 2020

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

In March 2021, the Company terminated the Technology Development Agreement with the service provider, G & J Technologies Inc. and inventor/innovator Gebhard Wager which served as the development agreement for the Company's KXI Suspension System. Pursuant to the Technology Development Agreement the Company will retain all intellectual property rights acquired under the Technology Development Agreement and the 2.5% royalty will carry on.

On March 4, 2021, the Company completed a private placement to raise aggregate gross proceeds of CAD \$6,370,000 whereby 7,000,000 units were issued at a price of CAD\$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD\$1.15 on or before 4:00 p.m. (Vancouver time) on March 4, 2022 and CAD\$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length and the transaction did not materially affect control of the Company. Capital resources are now expected to protect the Company's ability to conduct ongoing business operations as planned for the foreseeable future.

Capital Expenditures

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

Takeover Offers

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

Additional Information

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

B. Business Overview

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

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

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

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

Over the past five years management has established multi-million-dollar sales of its products to North American rail tank car manufacturers (OEM) and retrofit/repair businesses. Revenues over the last five audited year end periods were as follows: \$11,149,130 the year ended December 31, 2020; \$20,550,682 for the year ended December 31, 2019; \$12,716,596 for the year ended December 31, 2018; \$6,062,778 for the year ended December 31, 2017; and \$8,077,143 for the year ended December 31, 2016.

The Company's net earnings (loss) performance over the last five-year end periods were as follows: net loss of \$1,307,890 for the year ended December 31, 2020; net income of \$3,334,043 for the year ended December 31, 2019; net income of \$194,453 for the year ended December 31, 2018; a net loss of \$5,015,911 for the year ended December 31, 2017; and a net loss of \$2,465,592 for the year ended December 31, 2016.

The rail tank car industry is historically cyclical. The Company's primary market (hazmat rail tank cars) slowed considerably during the rail recession in 2016 and 2017 and improved in 2018 and 2019 to restore the Company's financial health. In 2020 the COVID-19 pandemic delivered a powerful economic setback for Kelso as the pandemic reshaped the business dynamics in the rail tank car industry. Given the unprecedented challenges of this crisis the Company's main focus was the containment of negative impacts on the Company's business model and the protection of the Company's key productive assets. The Company concentrated on preparedness for post-pandemic normalization and readiness for a strong restart of business growth when all is clear.

Tank car production in 2019 was just over 21,000 tank cars with just over 15,000 cars delivered in 2020. Industry analysts (Freight Transportation Research (FTR) Associates) estimate that OEM producers will deliver 8,800 new tank cars in 2021. In addition, significant retrofits are being evaluated to address the pending 2023 ethanol regulations as the ethanol industry plans for the appropriate post-2023 fleet size. New tank car demand is expected to grow to 14,800 tank cars in 2022 and 19,100 tank cars in 2023. The anticipated upswing in new-build and retrofit activity combined with a growing number of qualified Kelso products are expected to fuel new financial growth from rail operations. Depending on the makeup of customers' specifications and the status of our AAR approvals, sales of our valves can range to over \$10,000 per tank car in future periods. Overall tank car loadings decreased 8.5% in 2020 and a slight increase is expected in 2021. Kelso supplied its specialized tank car equipment to over 12,000 tank cars in 2019 and over 8,300 tank cars in 2020.

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

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

The growing challenges regarding the safety and access capabilities of emergency responders fighting wilderness fires motivated Kelso to begin the development of a unique vehicle suspension system that would provide rapid response road-to-no-road capabilities regardless of weather, climate or the severity of the terrain. This innovative equipment, known as the KXI™ Suspension System (the "KXI Suspension System"), is being developed through the Company's wholly owned subsidiary, KIQ X Industries (KIQ). The KXI Suspension System is based on thirty years of active wilderness research and experience and is a new pioneer brand (WILDERTEC™) initiated by Kelso to service the niche industry of wilderness transportation technologies. The Company's goal is to utilize well established automotive engineering practices to solve the environmental and operational challenges of extreme wilderness terrain travel and create opportunities and efficiencies for both industry and public service customers.

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

Business Model

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

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

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

- experienced executive management, including directors and officers with many years of business experience;
- focused strategic plans that are achievable, flexible and sustainable;
- access to development capital through reputable public company governance;
- corporate branding as a reliable supplier of high-quality railroad equipment;
- exceptional customer service;
- industrial engineering capability for product solutions based on customers' specific criteria;
- growth of "next generation" transportation service equipment for rail, road and wilderness transportation applications through in-house product development;
- product diversification plans to diminish revenue risk factors from historically cyclical products;
- acquisition of new or established products that can grow new markets under the Company's management;
- marketing initiatives that promote awareness of the quality of the Company's products and the economic value proposition they offer to interested stakeholders;
- reliable loyal customers to fuel predictable profitable business growth; and

- maintenance of a proven effective and efficient production infrastructure and capacity designed to meet demand.

Although still a small enterprise the Company believes that it remains at the forefront of technology development for the railroad industry as it has successfully developed new products which are designed to address current industry and customer demand and which replace products that are based on technology which was developed in some cases over 80 years ago. The Company's business model is focused on becoming a leader in the design and supply of new technologies aimed at safe operational effectiveness and economic efficiencies in transportation systems. We are focused on our rail equipment and the development of our wilderness transportation equipment that can diversify and grow our revenues in new market segments.

Currently, the Company offers a wide range of proprietary valves and other specialty equipment for rail tank cars and road tankers. In the 1990s Kelso's origins were based on unique inventions that better served problematic safety issues in the transport of hazmat commodities. The Company's commercial business evolution began with the adoption of the Company's patented constant force pressure relief valves during the surge in crude-by-rail (CBR) shipments from 2012 to 2015. Since 2012, the Company has distributed over 77,000 valves generating over \$111 million in revenues.

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

Rail and Road Transport Equipment

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

Rail Tank Car Market Indicators

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

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

The key industry metrics are as follows:

Measure	2014	2015	2016	2017	2018	2019	2020
(In thousands)							
Total tank car loadings:	3,502	3,796	3,323	3,375	3,637	3,729	3,600
1. Chemicals(includes ethanol)	1,501	1,651	1,493	1,543	1,577	1,574	1,500
2. Petroleum	784	900	863	941	1,081	1,173	1,100
3. Food	439	452	433	438	452	432	400
4. Crude-by-rail	518	525	281	191	266	339	300
Number of tank cars delivered	35,293	36,065	17,841	8,948	10,455	21,122	15,176
Performance (In thousands of \$)							
Kelso revenues	\$ 23,817	\$ 18,911	\$ 8,077	\$ 6,063	\$ 12,717	\$ 20,550	\$11,149
EBITDA (loss)	\$ 6,844	\$ 386	\$ (3,056)	\$ (4,609)	\$ 1,002	\$ 4,233	\$366
Earnings (loss)	\$ 4,026	\$ (2,511)	\$ (2,466)	\$ (5,016)	\$ 194	\$ 3,334	\$(1,308)

⁽¹⁾ The introduction of new types of valves in 2020 and in future years should favourably impact Kelso's ability to sell more valves per railcar and thus improve revenue opportunity per new or retrofitted railcar.

Based on current projections from industry analysts (Freight Transportation Research ("FTR") Associates) total tank car loading levels in 2021 are expected to be slightly above 2020 levels. Industry experts anticipate that the OEM producers will produce approximately 8,800 new tank cars in 2021. In addition, significant retrofits are being evaluated to address the pending 2023 ethanol regulations as the ethanol industry plans for the appropriate post 2023 fleet size. New tank car demand is expected to grow to 14,800 tank cars in 2022 and 19,100 tank cars in 2023. The anticipated upswing in new build and retrofit activity combined with a growing number of qualified Kelso products are expected to fuel new financial growth from rail operations.

The Company will continue to develop new rail products that are anticipated to provide new financial growth opportunities. The Company's focus on core design objectives that are:

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

Wilderness Transportation Equipment Market

KXI™ Suspension System

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

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

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

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

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

The Phase-One “concept” KXI Suspension System (prototype) included inventor's innovations, engineered production component parts, fabrication tooling and installation of the mechanical KXI Suspension System components on a light duty “host” vehicle. Multiple prototypes have been mostly completed, tested and performance deficiencies determined with final design specifications still to be dimensioned in the areas of reliable components, user interface and automation functions. Once completed these design advancements should ensure that KXI Suspension System attains complete compliance with the Canadian Motor Vehicle Safety Standards and the Federal Motor Vehicle Safety Standards in the United States enabling initial commercial fleet sales viability.

Third party wilderness experts have confirmed that the Company's “concept” KXI Suspension System is unique with good market potential. They confirm that a new non-serviced market exists and is worth pursuit. The KXI Suspension System concept has performed well off road and should allow users to get to wilderness terrain safely with less human fatigue. It demonstrates better wilderness performance than any other known vehicle and has low environmental impact on the ground.

KIQ will now begin to scale KXI Suspension System to a Heavy-Duty host vehicle which represents a larger more accessible commercial market opportunity. This strategic direction is expected to have lower R&D costs because of better transmissions, diesel options, better payload and tougher durability. The Company's KXI Suspension System engineering group includes professional automotive engineers, software and regulatory experts who will push toward final design specifications. The Company's goal is to ensure the KXI Suspension System secures complete compliance to all federal standards and regional regulations including warranty support from KIQ and host vehicle OEMs. The Company's experts confirm that there are regulatory advantages to pursue the development of a Heavy-Duty vehicle and the KXI Suspension System development is underway.

Production Facilities

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

KXI Suspension System R&D operations are located in Kelowna, British Columbia, Canada. The Company has produced several “concept” KXI Suspension System equipped production prototypes that form the foundation of the Company’s pre-production program. Due to many challenging variables, budgets and problematic R&D discoveries in 2020 the Company was unable to complete the regulatory approved commercial “blueprint” for the Company’s first product offerings as originally scheduled. Given that current COVID-19 uncertainties continue to be problematic and unpredictable the Company is carefully revising the Company’s R&D objectives and schedules. The Company remains optimistic about the long-term prospects for the KXI Suspension System however, Kelso has had to delay ambitions for the light duty truck “pilot” production operations and marketing initiatives.

Specialized Skill and Knowledge

The Company relies on the specialized skills of management, employees and consultants in the areas of product development and assembly, business development and public company management. In particular, the Company believes that it has engaged individuals with extensive production expertise and railroad industry experience with the overall goal of attaining economic, effective and efficient assembly operations. The Company believes it has engaged individuals with extensive production expertise because the Company’s internal hiring standards require that individuals performing critical operations for component parts must have demonstrated a minimum of five years’ experience with similar production operations. The Company has a management team with extensive experience managing public companies. See “Directors, Senior Management and Employees”. The loss of any of these individuals could have an adverse effect on the Company. See “Risk Factors”.

Competitive Conditions

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

Intangible Properties

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

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

Seasonality/Cycles

The cyclical nature of the Company’s rail business reflects the cyclical nature of the tank car industry. Historically, uptrend cycles can last up to 3 to 5 years, followed by reduced building activity for 3 to 5 years as inventories of new cars are worked into the fleet.

Economic Dependence

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

Employees

As at December 31, 2020, the Company had 43 employees (December 31, 2019 – 45 employees), including employees of the Company's subsidiaries. The largest group of employees works at the Company's production facilities in Bonham, Texas and the remainder work in British Columbia.

Reorganizations

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

Government Regulations

The railroad transportation industry is highly regulated by governments. In both the United States and Canada, governments regulate, among other things, transportation of non-hazardous and HAZMAT commodities as well as rail safety. The primary regulatory body in the United States for the railroad transportation industry is the U.S. Department of Transportation and the Federal Railroad Administration, PHMSA and in Canada it is Transport Canada. The Company endeavours to develop all of the Company's products and operate the Company's business in compliance with all applicable government regulations and testing requirements. The Company certifies the Company's products on an ongoing basis in accordance with AAR guidelines and government regulations.

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

C. Organizational Structure

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

D. Property, Plants and Equipment

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

KXI production operations are located in Kelowna, British Columbia, Canada. The Company is currently shifting its focus to Heavy Duty trucks that will form the foundation of Kelso's pilot production program. Production drawings and tooling are expected to be completed and ready to be tested in 2021.

As at December 31, 2020, the total carrying value for the Company's property, plant and equipment was \$4,198,577 (December 31, 2019: \$3,389,994), the breakdown of which is as follows: land – \$12,558 (December 31, 2019: \$12,558), buildings – \$2,256,425 (December, 2018: \$2,342,192), leasehold improvements – \$5,179 (December 31, 2019: \$6,474), production equipment – \$345,325 (December 31, 2019: \$237,642), prototypes \$1,548,190 (December 31, 2019: \$686,336) and Right of Use assets – \$30,900 (December 31, 2019: \$104,792).

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

Item 4A. Unresolved Staff Comments

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of the Company's financial condition and results of operations for the years ended December 31, 2020 ("Fiscal 2020"), December 31, 2019 ("Fiscal 2019") and December 31, 2018 ("Fiscal 2018") should be read in conjunction with the Company's audited consolidated financial statements and related notes included in this annual report in accordance with "Item 8 – Financial Information". The Company's financial statements for Fiscal 2020, Fiscal 2019 and Fiscal 2018(collectively, the "Reported Periods") were prepared in accordance with IFRS as issued by the IASB.

	Year ended December 31 2020	Year ended December 31 2019	Year ended December 31 2018
Revenues	\$ 11,149,130	\$ 20,550,682	\$ 12,716,596
Cost of goods sold	\$ 6,356,452	\$ 10,967,803	\$ 7,429,380
Gross profit	\$ 4,792,678	\$ 9,582,879	\$ 5,287,216
Gross profit margin	43%	47%	42%
Expenses including non-cash items	\$ 5,768,476	\$ 6,087,357	\$ 4,955,448
Deferred income tax expense(recovery)	\$ -	\$ -	\$ -
Income tax expense (recovery)	\$ 248,992	\$ 99,077	\$ (251,164)
Net income (Loss) for the year	\$ (1,307,890)	\$ 3,334,043	\$ 194,453
Number of common shares outstanding	47,170,086	47,170,086	47,170,086
Basic earnings (Loss) per common share	\$ (0.03)	\$ 0.07	\$ 0.00
EBITDA(Loss)	\$ 366,157	\$ 4,233,339	\$ 1,017,153
Cash	\$ 1,049,049	\$ 4,418,236	\$ 1,246,244
Working capital	\$ 6,251,893	\$ 7,937,873	\$ 4,469,882
Total assets	\$ 12,016,515	\$ 13,731,571	\$ 9,944,990
Shareholders' equity	\$ 10,960,923	\$ 11,845,275	\$ 8,165,734
Dividends paid per share	\$ 0.00	\$ 0.00	\$ 0.00

Revenues for 2020 declined due to the general shutdown of the economy as a result of the COVID-19 pandemic. Revenues for 2019 rose due to increased demand for our rail tank car service equipment for applications in chemicals, petrochemicals, food and crude oil. Throughout 2019 Kelso continued to take successful measures to improve positive cash flows from operations. We began to see the correction of several years of weak financial performance in 2018 and the turnaround of sales momentum was very apparent in 2019. The uptrend in capital spending in the rail and truck hazmat marketplace fuelled our positive performance in 2019. However, that uptrend ceased in 2020 due to COVID-19.

From 2017 through 2020 our strategic plan has been focused on re-branding Kelso as a reliable American made supplier of high-quality performance equipment for the rail tank car industry. This was an imperative strategic goal as management believed that it was essential to achieve a healthy turnaround of our future financial performance after a dismal 2017.

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

Although many operational and human resource expenses have been reduced over the past three years, our capital management remains challenging. However, recent improvements in cash flows from sales growth that started in 2018 and continued in 2019 have been more than adequate to fund our ongoing business activities. With the impact of COVID-19 the Company's cash flow in 2020 was greatly diminished and it was necessary for the Company to seek an influx of capital after the 2020 year end. The subsequent private placement that was completed is expected to be more than enough capital to keep the Company in good financial standing for 2021 and into 2022. The Company's goal is to avoid dilutive equity funding activities and to remain free of interest-bearing long-term debt.

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

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

A. Operating Results

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

For the year ended December 31, 2020, the Company reported a net loss of 1,307,890 (\$0.03 per share) against revenues of \$11,149,130 compared to a net income of \$3,334,043 (\$0.07 per share) against revenues of \$20,550,682 for the year ended December 31, 2019.

Gross profit margin returns were \$4,792,678 (43% of revenues) for the year ended December 31, 2020 compared to \$9,582,879 (47% of revenues) for the year ended December 31, 2019. Gross profit margin decreased slightly due to increased material costs.

Total operational expenses declined to \$5,768,476 for the year ended December 31, 2020 compared to \$6,087,357 for the year ended December 31, 2019. Expenses were reduced by 5% and fell in line with Management's COVID-19 revised strategic plans and expectations to facilitate the current rail business and the development of the Company's KXI Suspension System.

Factors in the reported income for the year ended December 31, 2020 include expenses related to ongoing marketing initiatives in the amount of \$365,193 (2019 – \$288,893) and related travel costs of \$52,497 (2019 – \$197,293). These expenses are related to ongoing marketing programs for existing and new products. Travel costs have been greatly minimized due to COVID 19 "work-from-home" circumstances.

A key component of the Company's future business growth is the research, design, testing and qualification of new rail and automotive products. During the year ended December 31, 2020 the Company's industrial product design and development costs were \$1,391,712 (2019 – \$1,129,007). In addition to the Company's ongoing rail equipment R&D the majority of these expenses relates to design and continuing testing of the Company's KXI Suspension System. New product developments are necessary to provide diverse opportunities for Kelso to grow the Company's future revenues beyond the COVID-19 crisis from new markets. The Company's goal is to diminish the financial effects of a historically cyclical rail tank car market with non-rail product development.

Management continues to carefully manage both the Company's rail operations and KXI Suspension System development with the goal of new diverse business growth. This is reflected in the Company's investments in human resources, marketing, sales and production operations for the year ended December 31, 2020. The Company recorded office and administrative costs of \$2,074,623 (2019 – \$2,219,711) and Management compensation was \$670,269 (2019 – \$1,037,586). Management compensation includes an accrual for contractual Management performance bonuses for the year ended December 31, 2020 of \$28,423 (2019 – \$496,894). Management bonuses are accrued by quarter and are paid based upon the audited year-end balance not later than May 15 of the year following. Management bonuses declined based on the financial performance of the Company. Consulting fees were \$265,507 (2019 – \$386,681) while investor relations remained unchanged at \$84,000 (2019 – \$84,000).

Accounting, audit and legal fees are cost components of the Company's corporate development strategies and the required administration functions of a publicly listed industrial company listed on two stock exchanges. Costs for these professional audit and legal services were \$312,213 for the year ended December 31, 2020 (2019 – \$321,945). This includes ongoing US tax and audit requirements. Other legal costs relate to an increase in patent applications, public company administration including reorganization costs, the preparation and filing of press releases, documentation and reviewing possible acquisition targets and new business arrangements. Also included are the costs of complying with the rules and regulations of both the Toronto Stock Exchange and NYSE American Exchange including the complexities of regulatory documentation and Annual Information Form (AIF) and Securities Exchange Commission documentation (20-F).

The Company's functional currency is US dollars, but Kelso also holds various assets in Canadian dollars. The Canadian dollar has remained volatile in value against the US dollar therefore the Company has recorded an unrealized foreign exchange gain of \$11,254 for the year ended December 31, 2020 (2019 - \$27,698 loss).

The Company has recorded an income tax expense of \$248,992 for the year ended December 31, 2020 compared to an income tax expense of \$99,077 for the year ended December 31, 2019. The tax expense is calculated on the income for tax purposes which is a result of adjusting accounting income (loss) for non-cash items. In the past, the Company has had losses to apply against taxes payable, however, those losses were applied in prior years.

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

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

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

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

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

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

Management continues to expand its rail operations and its new subsidiary KIQ X Industries featuring our KXI product development that is focused on the generation of new diverse business growth. This is reflected in our investments in human resources, marketing, sales and production operations for Fiscal 2019. The Company recorded office and administrative costs of \$2,219,711 (2018 – \$1,667,646), management compensation was \$1,037,586 (2018 – \$610,570). Management compensation includes an accrual for contractual management performance bonuses for the year ended December 31, 2019 of \$496,894 (2018 – \$70,035). Management bonuses are accrued by quarter and are paid based upon the audited year end balance not later than May 15 of the year following. In

addition, the Company implemented a key employee bonus plan which amounted to \$280,900 for Fiscal 2019. This amount is to be paid not later than April 15, 2020. Consulting and filing fees were \$386,661 (2018 – \$196,823) while investor relations remained unchanged at \$84,000 (2018 – \$84,000).

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

The Company's functional currency is US dollars but Kelso also holds various assets in Canadian dollars. The Canadian dollar has remained volatile in value against the US dollar therefore we have recorded an unrealized foreign exchange loss of \$27,698 for Fiscal 2019. Net income and comprehensive income for Fiscal 2019 was \$3,334,043 after deducting non-cash items. In accordance with IFRS, reported income includes items not involving cash. These include amortization of \$384,827, share-based expense ("**Black-Scholes**") in the amount of \$345,498; write off of inventory of \$62,402 and a bad debt recovery of \$20,206.

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

B. Liquidity and Capital Resources

The Company's primary source of revenue to date has been from new rail tank car builders and retrofit/repair customers. Management expects that the Company's capital resources may grow and diminish in line with the historic up and down economic cycles of the railroad industry. As at the end of Fiscal 2020 there were no material commitments for capital expenditures.

The Company plans to generate the necessary capital resources to finance operations by way of the sales of the Company's products. If the Company is unsuccessful in generating adequate capital resources from one or more of the anticipated sources and is unable to replace any shortfall with capital resources from another source, the Company may not be able to meet the Company's future financial obligations and the Company's operations may be adversely affected.

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

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

December 31, 2020 Compared to December 31, 2019

As at December 31, 2020 the Company had cash on deposit in the amount of \$1,049,049, accounts receivable of \$535,659, prepaid expenses of \$162,739 and inventory of \$5,462,532 compared to cash on deposit in the amount of

\$4,418,236, accounts receivable of \$1,824,563, prepaid expenses of \$96,627 and inventory of \$3,394,192 as at December 31, 2019.

The Company has accrued income tax payable of \$91,566 as at December 31, 2020 compared to income tax payable of \$71,341 as at December 31, 2019.

The working capital position of the Company as at December 31, 2020 was \$6,251,893 compared to \$7,937,873 as at December 31, 2019. Most of the Company's working capital as at December 31, 2020 was comprised of inventories to service future deliveries hence, the Company's available cash reserves for operations were becoming depleted. Given COVID-19 economic uncertainties new equity capital was secured subsequent to year end. On March 4, 2021 the Company completed a private placement to raise aggregate gross proceeds of CAD\$6,370,000 whereby 7,000,000 units were issued at a price of CAD\$0.91 per unit, with each unit being comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant can be exercised at a price of CAD\$1.15 per common share on or before 4:00 p.m. (Vancouver time) on March 4, 2022 and CAD\$1.30 on or before 4:00 p.m. (Vancouver time) on March 4, 2023. The private placement was entirely arm's length and the transaction did not materially affect control of the Company. Capital resources are now expected to protect the Company's ability to conduct ongoing business operations as planned for the foreseeable future.

Net assets of the Company declined to \$10,960,923 as at December 31, 2020 compared to \$11,845,275 as at December 31, 2019. The Company had no interest-bearing long-term liabilities or debt as at December 31, 2020.

The Company's post COVID-19 business prospects are encouraging; however, the Company is in very uncertain times. There is a significant possibility of further diminishment of the Company's financial performance during 2021 due to the pandemic although the depth of the downturn remains uncertain. The duration and future effects of the COVID-19 pandemic are unknown.

December 31, 2019 Compared to December 31, 2018

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

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

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

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

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

A key component of the Company's future business growth is the research, design, testing and qualification of new rail and automotive products. New product developments are necessary to provide diverse opportunities for Kelso to grow the Company's future revenues beyond the COVID-19 crisis from new markets. The Company's goal is to diminish the financial effects of a historically cyclical rail tank car market with non-rail product development. See "Business Overview", "Intangible Properties", "Economic Dependence" and "Risk Factors" above for a discussion of the Company's patents and licenses.

The Company has spent the following amounts on research in last three years: \$1,391,712 in Fiscal 2020; \$1,129,007 in Fiscal 2019; and \$1,352,817 during Fiscal 2018. In addition to the Company's ongoing rail equipment R&D the majority of these expenses relates to design and continuing testing of the Company's KXI Suspension System.

D. Off-Balance Sheet Arrangements

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

E. Tabular Disclosure of Contractual Obligations

The Company does not have any contractual obligations as of December 31, 2020 relating to long-term debt obligations, purchase obligations or other long-term liabilities reflected on the Company's latest statement of financial position as at December 31, 2020. The Company has lease obligations for warehouse space in Kelowna, British Columbia as well as for vehicles used in the development of prototypes. Under IFRS these leases are recorded on the Company's statement of financial position.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Name	Position(s) Held with Company	Principal Business Activities and Other Principal Directorships
James R. Bond	Director President and CEO	President of Bondwest Enterprises Inc.; Director of SIQ Mountain Industries Inc. (SIQ: TSXV).
Richard Lee	CFO	Self-employed businessman. CFO of the Company since April 8, 2010. CFO and Director of SIQ Mountain Industries Inc. (SIQ: TSXV) and CFO of Happy Creek Minerals Inc. (HPY: TSXV).
Peter Hughes	Director Compensation Committee Member (Chair)	Self-employed businessman; Director and CEO of SIQ Mountain Industries Inc. (SIQ: TSXV); Director of Yuntone Capital Corp. (YTC: TSXV), CEO and Director of Gourmet Ocean Products Inc. (GOP: TSXV) and Director of Navion Capital Inc. (NAV.N.P: TSXV).
Tony Andrukaitis	Director Executive Vice President Business Development, COO	Independent Business Consultant.
Paul Cass	Director Audit Committee Member (Chair) Compensation Committee Member	Self-Employed Businessman.
Laura Roach	Director Compensation Committee Member Corporate Governance and Nominating Committee Member	Attorney and partner at the national law firm McCathern Law located in Frisco, Texas.
Jesse V. Crews	Director Audit Committee Member Corporate Governance and Nominating Committee Member (Chair)	Chief Investment Officer of Trinity Industries Leasing Company.

Name	Position(s) Held with Company	Principal Business Activities and Other Principal Directorships
Frank Busch	Director Audit Committee Member Corporate Governance and Nominating Committee Member	Chief Executive Officer of NationFUND Access Capital Corporation
Chris Stewart	President KIQ X Industries Inc.	President of KIQ X Industries Inc.

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

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

Richard Lee (65 years) – CFO

Mr. Lee has been the Company’s CFO since April 8, 2010. Mr. Lee is a graduate of the University of British Columbia with a Bachelors’ degree in Commerce. In addition, he is a Chartered Professional Accountant, Certified Management Accountant having obtained his designation in 1991. Mr. Lee spent more than 27 years working for public accounting firms or for companies that trade on recognized stock exchanges. He has gained a wealth of experience in corporate finance, acquisitions and accounting while working with and for listed public companies trading in Canada as well as registered with the SEC in the United States. Mr. Lee serves as CFO and a Director of SIQ Mountain Industries Inc, a company listed on the TSXV; as well as CFO of Happy Creek Minerals Inc., a company listed on the TSXV. Mr. Lee was also a Director of Invictus MD Strategies Corp. from June 4, 2019 to February 25, 2020.

Peter Hughes (59 years) –Lead Director

Mr. Hughes has been a director of the Company since October 4, 2010 and is a member of the Company’s Compensation Committee and Corporate Governance & Nominating Committee. Mr. Hughes has 35 years’ business experience including senior-level executive and director positions in both private and public companies specializing in pharmaceuticals, alternative energy, mining, aquaculture and sports technology. Mr. Hughes is a graduate of the University of British Columbia with a Bachelors’ degree in Science, Canadian Securities Course and Director’s and Officer’s Course. Mr. Hughes currently serves as CEO and Director 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.

Tony Andrukaitis (66 years) – Director, Executive Vice-President Business Development and COO

Mr. Andrukaitis has been a director of the Company since August 24, 2011 and was appointed COO on March 1, 2016. Mr. Andrukaitis was a member of the Audit Committee until January 2, 2015 when he was appointed Executive Vice President Business Development. Mr. Andrukaitis holds the position of President and CEO of Kelso Technologies (USA) Inc. since August 3, 2016 and President and CEO of Kel-Flo Industries Inc. (engineering industrial designs and distribution plans for patented OBM) since February 2, 2017. Mr. Andrukaitis has over 26 years of senior corporate management experience in finance, accounting, strategic planning, business development and turn-around activities. He was the Chief Operations Officer of Trinity Rail and former President of Trinity Tank Car, Inc., both subsidiaries of Trinity Industries of Dallas, Texas. Prior to that, he was the President and CEO of GATX Terminals Corporation of Chicago, IL. Mr. Andrukaitis is a CPA and holds a Bachelor of Science degree in Accounting from the University of Illinois and Master of Business Administration degree from DePaul University.

Paul Cass (64 years) – Director

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

Laura Roach (49 years) - Director

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

Jesse V. Crews (68 years) – Director

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

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

Frank Busch (42 years) – Director

Mr. Busch's expertise is finance, business development and indigenous relations as Director of Community Engagement with the First Nations Finance Authority in Canada. Mr. Busch received his Bachelor of Arts from the University of Manitoba and has completed five specialized financial certificates from the Canadian Securities Institute and a post-graduate Certificate in Finance from Harvard University in preparation for entering the Masters' of Liberal Arts in Extension Studies Field: Finance at Harvard. Mr. Busch is an expert in the field of Indigenous Engagement and Relations and has spoken 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.

Chris Stewart (43) – President KIQ X Industries Inc.

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

Family Relationships

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

B. Compensation

During Fiscal 2020, the Company’s directors and members of the Company’s administrative, supervisory or management bodies received compensation for services, as follows:

Name and Principal Position	Fiscal Year Ended December 31, 2020			
	Salary (\$)	Option-based Awards (\$)	All other compensation (\$)	Total compensation (\$)
James R. Bond <i>Director, President and CEO</i>	\$213,948	46,619	9,474	270,041
Richard Lee <i>CFO</i>	\$213,948	46,619	9,474	270,041
Peter Hughes <i>Director</i>	N/A	23,309	49,500	72,809
Tony Andrukaitis <i>Director, Executive Vice President Business Development and COO</i>	\$213,948	46,619	9,474	270,041
Paul Cass <i>Director</i>	N/A	23,309	33,167	56,476
Laura Roach <i>Director</i>	N/A	23,309	24,000	47,309
Jesse V. Crews <i>Director</i>	N/A	26,287	31,500	57,787
Frank Busch <i>Director</i>	N/A	89,158	22,000	111,158
Chris Stewart ⁽¹⁾ President KIQ X Industries Inc.	N/A	N/A	N/A	N/A

⁽¹⁾ Mr. Stewart was appointed President of KIQ X Industries Inc. on January 20, 2021

Management Agreements

On July 1, 2020, the Company 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 Company 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 Company and Mr. Anthony Andrukaitis entered into a Professional Services Agreement expiring on June 30, 2023, unless extended thereafter for further 1-year terms, subject to the approval of the Board (the "**COO PSA**"). Under the terms of the COO PSA, Mr. Andrukaitis 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.

Stock Option Plan

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

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

The exercise price of any option granted under the Option Plan is to be determined from time to time by the Board but in any event shall be no lower than the last closing price of the Company's shares before the grant of options. The Board, or a committee appointed for such purposes, also has the authority under the Option Plan to determine other terms and conditions relating to the grant of options, including any applicable vesting provisions. Options

issued to any Optionee providing investor relations services to the Company must vest (and not otherwise be exercisable) in stages over a minimum of twelve months with no more than one quarter of the options vesting in any three-month period and will expire within a maximum of thirty days after the Optionee ceases to be employed by the Company.

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

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

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

Option-Based Awards

The following table sets forth the share-based awards or option-based awards for each of directors and officers of the Company outstanding as at December 31, 2020:

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\$) ⁽¹⁾
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
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

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\$) ⁽¹⁾
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
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	200,000	0.76	February 11, 2025	0
	50,000	0.75	August 18, 2025	0
Chris Stewart ⁽²⁾	N/A	N/A	N/A	N/A

⁽¹⁾ Value is 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.

⁽²⁾ Mr. Stewart was appointed President of KIQ X Industries Inc. on January 20, 2021

Termination and Change of Control Benefits

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

Pension, Retirement or Similar Benefits

The Company has not set aside or accrued any amounts to provide pension, retirement or similar benefit for the Company's directors or senior management during Fiscal 2020.

C. Board Practices

Term of Office

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

Service Contracts

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

Committees

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

Audit Committee

Since February 11, 2020, the members of the audit committee were Paul Cass (Chairman), Jesse V. Crews and Frank Busch. Prior thereto, Mr. Phil Dyer was a member and Chairman of the Audit Committee. Mr. Dyer resigned from the Board on February 11, 2020 and was replaced by Mr. Frank Busch as a director and as a member of the audit committee. At that time, Mr. Paul Cass was named Chairman of the audit committee. As defined in National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrator, Messrs. Cass, Crews and Dyer were independent and the current audit committee consisting of Paul Cass, Jesse Crews and Frank Busch are independent, meaning that they have no direct or indirect material relationship with the Company that could, in the view of the Board, reasonably interfere with the exercise of their independent judgment. They are also financially literate, meaning that they have the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. The Company has adopted a charter for the Company’s audit committee. The full text of the Charter of the Audit Committee is available on the Company’s website at www.kelsotech.com. The audit committee is responsible for review of both interim and annual financial statements for the Company. For the purposes of performing their duties, the members of the audit committee have the right at all times, to inspect all the books and financial records of the Company and any subsidiaries and to discuss with management and the external auditors of the Company any accounts, records and matters relating to the financial statements of the Company. The audit committee members meet periodically with management and annually with the external auditors. The Company’s audit committee has the overall duties and responsibilities to:

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

Compensation Committee

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

- to recommend to the Board compensation policies and guidelines for the Company; and
- to review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer and, in light of those goals and objectives, to recommend to the Board the annual salary, bonus and other benefits, direct and indirect, of the Chief Executive Officer and to approve compensation for all other

designated officers of the Company, after considering the recommendations of the Chief Executive Officer, all within the human resources and compensation policies and guidelines approved by the Board.

The Company has adopted a formal written mandate for the Compensation Committee which can be viewed on the Company's website at www.kelsotech.com. The mandate provides that the committee shall consist of at least three members of the Board, all of whom shall be "independent" in accordance with applicable legal requirements, including currently the requirements published by the Canadian Securities Administrators under National Policy 58-201 "Corporate Governance Guidelines" and the applicable NYSE American rules. The members of the Compensation Committee are Messrs. Hughes (Chairman) and Cass and Ms. Roach.

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

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

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

Corporate Governance and Nominating Committee

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

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

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

- Develop and monitor the Company's overall approach to corporate governance issues and, subject to approval by the Board, implement and administer this process.
- Advise the Board or any of the committees of the Board of any corporate governance issues which the Committee determines ought to be considered by the Board or any such committees.
- Review with the Board, on a regular basis, but not less than annually, the terms of reference for the Board, each committee of the Board, the Chairman and the Chief Executive Officer.
- Review with the Board, on a regular basis, the methods and processes by which the Board fulfils its duties and responsibilities, including without limitation:
 - i. the size of the Board;
 - ii. the number and content of meetings;

- iii. the annual schedule of issues to be presented to the Board at its meetings or those of its committees;
 - iv. material which is to be provided to the directors generally and with respect to the meetings of the Board or its committees;
 - v. resources available to the directors; and
 - vi. the communication process between the Board and management.
- Review and, as necessary, authorize a committee or an individual director to engage separate independent counsel and/or advisors at the expense of the Company in appropriate circumstances.
 - Make recommendation to the Board regarding changes or revisions to the Board's Corporate Governance Guidelines;
 - Evaluate and make recommendations to the Board concerning the appointment of directors to the committees and the selection of Board committee chairs;
 - Annually evaluate and report to the Board on the performance and effectiveness of the Board and its committees;
 - Annually, in conjunction with the Chief Executive Officer, evaluate the performance of the Company's management (other than the Chief Executive Officer). Conduct an annual review of succession planning and report its findings and recommendations to the Board;
 - Evaluate and lead the Board's annual review of the Chief Executive Officer's performance; and
 - Annually review and evaluate its performance.

The Company has adopted a formal written mandate for the Corporate Governance and Nominating Committee, which can be viewed on the Company's website at www.kelsotech.com. The mandate provides that the Corporate Governance and Nominating Committee shall consist of at least three directors, all of whom will be "independent directors" in accordance with applicable legal requirements, including currently the requirements published by the Canadian Securities Administrators under National Policy 58-201 "Corporate Governance Guidelines" and the applicable NYSE American rules.

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

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

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

D. Employees

As at December 31, 2020, the Company had 43 employees, including employees of the Company's subsidiaries. The majority of employees work at the Company's production facilities in Bonham, Texas. Canadian personnel work in Kelowna, British Columbia. There has been no significant change in the number of employees since December 31, 2019. At the date of this filing, the Company's employees are not unionized and all employees are full-time. At December 31, 2019, the Company had 45 employees, including employees of the Company's subsidiaries.

E. Share Ownership

As of December 31, 2020, the Company's directors and senior management beneficially owned the following common shares and stock options of the Company:

Name and Office Held	Number of Common Shares Owned and Percent of Total Outstanding Common Shares		Options Owned
	# of Shares	% of Class ⁽¹⁾	
James R. Bond <i>Director, President and CEO</i>	1,368,300 ⁽²⁾	2.90	500,000
Peter Hughes <i>Director</i>	16,000	0.003	250,000
Tony Andrukaitis <i>Director, Executive Vice President Business Development and COO</i>	264,000	0.56	500,000
Paul Cass <i>Director</i>	79,000	0.17	400,000
Laura Roach <i>Director</i>	6,390	0.013	400,000
Jesse V. Crews <i>Director</i>	112,125	0.237	350,000
Frank Busch <i>Director</i>	20,000	0.004	250,000
Richard Lee <i>CFO</i>	144,500	0.306	400,000
Chris Stewart (3) <i>President KIQ X Industries Inc.</i>	N/A	N/A	N/A

⁽¹⁾ Based on 47,170,086 common shares issued and outstanding as at December 31, 2020.

⁽²⁾ Mr. Bond holds 552,500 common shares directly; 660,800 common shares indirectly through Bondwest Enterprises Inc., a company owned and controlled by Mr. Bond; and 155,000 common shares jointly with Serena Sardar, Mr. Bond's spouse.

⁽³⁾ Mr. Stewart was appointed President of KIQ X Industries Inc. on January 20, 2021

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

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

As at December 31, 2020, the registrar and transfer agent for the Company reported that there were 47,170,086 common shares of the Company issued and outstanding. Of these, 43,140,454 were registered to Canadian residents (10 recorded shareholders), 4,018,204 were registered to residents of the United States (19 recorded shareholders) and 11,428 were registered to residents of other foreign countries (1 recorded shareholder).

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

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

B. Related Party Transactions

For Fiscal 2020, management fees for the Company were \$641,845 (Fiscal 2019 – \$540,692; Fiscal 2018 – \$540,535). As at December 31, 2020, the amount due to related parties (which are unsecured and have no interest or specific terms of payments) was \$28,423 (Fiscal 2019 – \$537,644; Fiscal 2018 – \$19,500). Management bonuses of \$28,423 were earned in Fiscal 2020 (Fiscal 2019 – \$496,894; Fiscal 2018 – \$70,035); \$Nil related to accrued Directors fees (Fiscal 2019 – \$40,750; Fiscal 2018 – \$19,500) and there were no amounts due for reimbursement of expenses to a director of the Company. Expense reimbursements are due on demand. Related party transactions during Fiscal 2020, Fiscal 2019 and Fiscal 2018 were in the normal course of operations and were measured at their fair value.

Share-based expenses (calculated using the Black-Scholes option pricing model) for Fiscal 2020 were \$335,155; in Fiscal 2019 were \$255,902 and in Fiscal 2018 were \$262,261.

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

- (a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Company;
- (b) associates, meaning unconsolidated enterprises in which the Company has a significant influence or which have significant influence over the Company;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of any such individual's family;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and senior management of the Company and close members of such individuals' families; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence, including enterprises owned by directors or major shareholders of the Company and enterprises that have a member of key management in common with the Company.

Compensation

For information regarding compensation for the Company's directors and senior management, see Item 6.B. Compensation.

Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Financial Statements and Other Financial Information

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

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

- (a) audited consolidated financial statements for the year ended December 31, 2020 including: report of the independent registered public accountant, Smythe LLP, Chartered Professional Accountants, comprising the consolidated statements of financial position as at December 31, 2020 and 2019, the consolidated

statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2020, 2019 and 2018.

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

Export Sales

All sales are domestic to the US.

Legal Proceedings

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

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

Policy on Dividend Distributions

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

Significant Changes

The Company is not aware of any significant change that has occurred since December 31, 2020 that have not been disclosed in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Price History

Full Financial Years (five most recent full financial years)

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

Year Ended	TSX ⁽¹⁾ (Canadian dollars, \$)		NYSE American ⁽²⁾ (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2020	1.32	0.55	1.00	0.45
December 31, 2019	2.19	0.55	1.66	0.41
December 31, 2018	1.25	0.46	0.96	0.3591
December 31, 2017	1.40	0.315	1.08	0.27
December 31, 2016	1.90	0.96	1.44	0.70

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

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

Full Financial Quarters (two most recent full financial years)

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

Quarter Ended	TSX (Canadian dollars, \$)		NYSE American (U.S. dollars, \$)	
	High	Low	High	Low
December 31, 2020	0.80	0.55	0.62	0.45
September 30, 2020	1.07	0.62	0.80	0.47
June 30, 2020	0.97	0.65	0.72	0.46
March 31, 2020	1.32	0.64	1.00	0.45
December 31, 2019	1.12	0.91	0.90	0.69
September 30, 2019	2.06	0.82	1.58	0.61
June 30, 2019	2.19	0.90	1.66	0.69
March 31, 2019	1.19	0.55	0.90	0.41

Most Recent 6 Months

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

Month End/Period	TSX (Canadian dollars, \$)		NYSE American (U.S. dollars, \$)	
	High	Low	High	Low
March 1-15, 2021	1.47	0.94	1.17	0.72
February 28, 2021	1.85	0.86	1.48	0.69
January 31, 2021	1.20	0.68	0.95	0.53
December 31, 2020	0.72	0.62	0.62	0.47
November 30, 2020	0.73	0.55	0.57	0.45
October 31, 2020	0.80	0.60	0.62	0.47

Transfers of Common Shares

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

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

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

B. Plan of Distribution

Not applicable.

C. Markets

The Common Shares are publicly traded on the TSX under the symbol “KLS”, and on the NYSE American under the symbol “KIQ”.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

C. Material Contracts

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

1. The patent abstract describes the PRV as "a pressure relief valve for releasing fluid through a vent in a railway tank car, tank trucks and similar vessels. A valve disc is normally biased in a closed position by a plurality of constant-force springs of laminated steel tapes on drums supported on upright angle brackets symmetrically arranged around a valve seat. The pressure at which the valve opens is determined by a pre-selection of the number of springs, laminated tapes per spring and the restoring force of each tape." See "Business Overview".
2. On May 26, 2010, the Company entered into an agreement with Barry LaCroix whereby the Company acquired Manhole Cover Patent No. US 7,104,722 B2 from Mr. LaCroix and related technology and intellectual property in consideration for CAD\$40,000 and the grant of a 5% royalty on gross sales of the manhole covers sold under the auspices of the patent in favour of Mr. LaCroix on the terms and conditions set out in the agreement. This patent expires 2023.
3. The Company has a 10% rolling stock option plan which was last approved by the shareholders of the Company on June 25, 2020. A copy of the Option Plan is available under the Company's profile on SEDAR at www.sedar.com in Canada on EDGAR at www.sec.gov in the United States.
4. On July 1, 2020, the Company entered into Professional Services Agreements with each of Bondwest Enterprises Inc. ("**Bondwest**") (the "**CEO PSA**"), Kitchener Holdings Corp. ("**Kitchener**") (the "**CFO PSA**") and Mr. Anthony Andrukaitis (the "**COO PSA**"), Reference is made to the section entitled "Management Agreements" under Item 6, Directors, Senior Management and Employees, herein, for further details.

D. Exchange Controls

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

E. Taxation

Certain Canadian Federal Income Taxation

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

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

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

Dividends

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

Capital Gains

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

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

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

United States Federal Income Taxation

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

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

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

U.S. Holders

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

Distributions

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

Capital Gains

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

Foreign Tax Credit

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

I. Subsidiary Information

The Company operates in conjunction with the Company's five wholly-owned subsidiaries Kelso Technologies (USA) Inc. (incorporated on August 3, 2005 in the State of Nevada), Kel-Flo Industries Inc. (incorporated on June 20, 2012 in the State of Nevada), KIQ Industries Inc. (incorporated on October 7, 2014 in the State of Nevada) and KIQ X Industries Inc. (incorporated on December 12, 2017 in the Province of British Columbia, Canada). KXI Wildertec Industries Inc. (incorporated on February 17, 2020 in the Province of British Columbia, Canada). Kelso Technologies Inc. owns 100% of the voting securities of each of the Company's subsidiaries and none of the subsidiaries has a class of restricted securities.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Cash is placed with a major Canadian financial institution and the Company's concentration of credit risk for cash and maximum exposure thereto is \$1,049,049 at December 31, 2020 (December 31, 2019 – \$4,418,236).

With respect to its accounts receivable, the Company assesses the credit rating of all customers and maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. The Company's credit risk with respect to accounts receivable and maximum exposure thereto is \$535,659 at December 31, 2020 (December 31, 2019 – \$1,824,563).

The Company's concentration of credit risk for accounts receivable at December 31, 2020 with respect to Customer A is \$105,820 (2019 – \$476,341) and Customer B is \$15,349 (2019 – \$172,841); Customer C is \$Nil (2019 – \$678,100) and Customer D is \$150,000 (2019 – \$149,066). The Company has an allowance for doubtful accounts of \$Nil at December 31, 2020 (2019 – \$Nil).

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

(b) Liquidity risk

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

As at December 31, 2020, the Company has cash in the amount of \$1,049,049 (December 31, 2019 – \$4,418,236) and accounts receivable of \$535,659 (December 31, 2019 – \$1,824,563) to settle current liabilities of \$958,086 (December 31, 2019 – \$1,795,745) with the following due dates; trade accounts payable of \$786,354 (December 31, 2019 – \$1,100,376) are due within three months; and due to related party balances of \$28,423 (December 31, 2019 – \$537,644), income tax payable of \$91,566 (December 31, 2019 – \$71,341) and current portion of lease liability of \$51,743 (December 31, 2019 – \$86,384). All payables are due within a year. The amount of the Company's remaining undiscounted contractual maturities for the lease liabilities is approximately \$100,709 (December 31, 2019 – \$122,534) which are due between one to five years.

(c) Market risk

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

(i) Interest rate risk

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

(ii) Currency risk

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

At December 31, 2020 and December 31, 2019, the Company's net exposure to foreign currency risk was as follows (in US):

	December 31, 2020	December 31, 2019
Net (liabilities)	\$ (34,775)	\$ (55,543)

Based on the above, assuming all other variables remain constant, a 2% (2019 – 14%) weakening or strengthening of the USD against the CAD would result in approximately \$696 (December 31, 2019 – \$7,776) foreign exchange loss or gain in the consolidated statements of operations and comprehensive income (loss).

(iii) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to other price risk.

See "Item 17. Financial Statements".

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None

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

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

approval; and (v) allowing for change of the Company's name by directors resolution instead of by an ordinary resolution of the shareholders of the Company. In addition, shareholders approved the adoption of advance notice provisions. Advance notice provisions provide a framework whereby the Company can fix a deadline for submission of director nominations by shareholders prior to any annual or special meeting of shareholders and can set forth the information regarding director nominees that a shareholder must include in their notice to the Company for such notice to be in proper written form.

Item 15. Controls and Procedures

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

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

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

Management assessed the Company's internal control over financial reporting as of December 31, 2020, the end of the Company's fiscal year. Management based its assessment on criteria established in *Internal Control—Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations (COSO2013)*. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

Based on the Company's assessment, management has concluded that the Company's internal control over financial reporting was effective, as of the end of the fiscal year, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS as issued by the IASB.

Attestation Report of the Registered Public Accounting Firm

Because the Company is an "emerging growth company" as defined in the United States Jumpstart Our Business Startups Act of 2012, the Company will not be required to comply with the auditor attestation requirements of the United States Sarbanes-Oxley Act of 2002 for as long as the Company remains an "emerging growth company", which may be for as long as five years following its initial registration on October 9, 2014 in the United States.

Changes in Internal Control over Financial Reporting

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

Item 16. [Reserved]

A. Audit Committee Financial Expert

The Company's board of directors has determined that Paul Cass qualified as an "audit committee financial expert" as defined in Item 16A(b) of Form 20-F and is an "independent director" as the term is defined by Section 803 of the NYSE American Company Guide.

B. Code of Ethical Conduct

The Company adopted a Code of Business Conduct and Ethics on August 1, 2014, which was amended and restated by the Board of Directors on March 16, 2020 that applies to all of the Company's directors and employees, including the Company's principal executive officer and principal financial officer. The full text of the Company's Code of Business Conduct and Ethics is available under the Company's profile on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the United States and on the Company's website at www.kelsotech.com.

C. Principal Accountant Fees and Services

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

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

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

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

The Company's independent registered public accountants provided audit and other services during the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2019:

	December 31, 2020 (CAD\$)	December 31, 2019 (CAD\$)
Audit Fees	105,000	90,000
Audit-Related Fees	5,000	15,500
Tax Fees	8,500	-
All Other Fees	N/A	N/A
Total Fees	118,500	105,500

Pre-Approval Policies and Procedures

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

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

D. Exemptions from the Listing Standards for Audit Committees.

Not Applicable.

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

Not Applicable.

F. Change in Registrants Certifying Account

Not applicable.

G. Corporate Governance

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

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

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

H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

Financial Statements filed as part of the annual report:

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

Audited consolidated financial statements including the report of the independent registered public accounting firm issued by Smythe LLP, Chartered Professional Accountants, comprising the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2020, 2019 and 2018.

Item 18. Financial Statements

See “Item 17. Financial Statements”.

Exhibits Exhibit No.	Description
(3)	Articles of Incorporation and Bylaws
3.01	Certificate of Incorporation ⁽¹⁾
3.01a	Certificate of Name Change ⁽¹⁾
3.01b	Notice of Articles ⁽¹⁾
3.01c	Articles ⁽¹⁾
(4)	Security holder Rights
4.01	Shareholders Rights Plan dated February 3, 2011 ⁽¹⁾
(10)	Material Contracts
10.01*	Professional Services Agreement with Bondwest Enterprises Inc. dated July 1, 2020
10.02*	Professional Services Agreement with Kitchener Holdings Corp. dated July 1, 2020
10.03*	Professional Services Agreement with Anthony Andrukaitis dated July 1, 2020
10.04*	Stock Option Plan dated June 25, 2020
10.05	Agreement with Barry LaCroix for Patent No. US 7,104,722 B2 dated May 26, 2010 ⁽¹⁾
10.06	Notice of Recordation of Assignment Document for US Patent No. 7104722 ⁽¹⁾
10.07	Notice of Recordation of Assignment Document for US Patent No. 5855225 ⁽¹⁾
11*	Code of Business Conduct and Ethics dated March 16, 2020
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(21)	Subsidiaries
21.01	List of Subsidiaries
(99)	Additional Exhibits
99.1	<u>Audited annual financial statements for the year ended December 31, 2018⁽²⁾</u>
99.2	<u>Audited annual financial statements for the year ended December 31, 2019⁽³⁾</u>
99.3*	Audited annual financial statements for the year ended December 31, 2020

*Filed herewith

⁽¹⁾ Incorporated by reference from the applicable exhibit to the Company’s Form 6-K filed on August 29, 2013.

⁽²⁾ Incorporated by reference from the applicable exhibit to the Company’s Form 6-K filed April 2, 2018.

⁽³⁾ Incorporated by reference from the applicable exhibit to the Company’s Form 6-K filed April 1, 2019.

SIGNATURES

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

KELSO TECHNOLOGIES INC.

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

Date: March 31, 2021

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

Date: March 31, 2021