



KELSO TECHNOLOGIES INC.

MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED

December 31, 2024

(Expressed in US Dollars unless otherwise indicated)



MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS:

- Kelso sustains a gross profit margin of 44%, exceeding industry averages, attributable to maintaining production efficiency and effectiveness through per order-based pricing models.
- For FY2024, revenue decreased by approximately 2% to \$10.68 million compared to \$10.82 million in FY2023. Despite a decline in year-over-year revenue, Kelso successfully increased its gross profit to \$4.69 million from \$4.58 million in FY2023, primarily due to management's implementation of effective expense reduction strategies.
- In FY2024, the Company optimized its balance sheet by reassessing inventory levels and the carrying value of the KXI HD system (KXI). Consequently, the company incurred a significant loss of \$4.6 million in FY2024 due to one-time expenses and write-offs.
- The persistent weakness in tank car demand in FY2024 presented significant challenges for the Company. Management remains committed to achieving sustainable revenue growth despite these market conditions.
- For FY2025, the company expects sales growth to be flat or slightly positive, ranging from 0% to 5%, compared to fiscal year 2024. The primary focus for FY2025 will be in maintaining cost discipline as the company prepares for the projected increase in new tank car builds starting in 2026/2027. This strategy aims to position the company to take advantage of the anticipated demand and optimize profitability.
- Frank Busch was appointed Chief Executive Officer.
- Management is continuing to focus its attention on increasing shareholder value by reducing expenses associated with KXI. We recognize the potential value of the underlying technology and are actively exploring strategic options to maximize its future. Specifically, we are pursuing potential joint venture partnerships and assessing the value of the project's core technology.

GENERAL

The following management discussion and analysis ("MD&A") of the operations and financial condition of **Kelso Technologies Inc.** (the "Company" or "Kelso") provides an overview of significant developments that have affected the Company's performance during the year ended December 31, 2024. It should be read in conjunction with the audited consolidated financial statements of the Company together with the related notes thereto for the year ended December 31, 2024.

The audited consolidated financial statements for the year ended December 31, 2024 referred to in this MD&A have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). The following MD&A and the Company's audited consolidated financial statements were approved by the Audit Committee on March 18, 2025 and the Board of Directors on March 25, 2025.



All amounts herein are expressed in United States dollars (the Company's functional currency) unless otherwise indicated.

NON-IFRS FINANCIAL MEASURES

In addition to the results reported in accordance with IFRS Accounting Standards, the Company uses one non-IFRS financial measure known as "Adjusted EBITDA". Adjusted EBITDA is not recognized under IFRS Accounting Standards, as a supplemental indicator of the Company's operating performance and financial position. This non-IFRS financial measure is provided to enhance the user's understanding of the Company's historical and current financial performance and its prospects for the future. This data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS Accounting Standards. The following discussion explains the Company's use of "Adjusted EBITDA".

References to Adjusted EBITDA in this MD&A refer to net earnings from continuing operations before interest, taxes and tax recoveries, amortization, deferred income tax recovery, unrealized foreign exchange losses, non-cash share-based expenses (Black-Scholes option pricing model) gain on revaluation of derivative warrant liability, and write-off of inventory assets. Adjusted EBITDA is not an earnings measure recognized by IFRS Accounting Standards and does not have a standardized meaning prescribed by IFRS Accounting Standards. Adjusted EBITDA is an alternative measure in evaluating the Company's business performance and Management believes it better reflects the Company's operational performance. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income as determined under IFRS Accounting Standards; nor as an indicator of financial performance as determined by IFRS Accounting Standards; nor a calculation of cash flow from operating activities as determined under IFRS Accounting Standards; nor as a measure of liquidity and cash flow under IFRS Accounting Standards. The Company's method of calculating Adjusted EBITDA may differ from methods used by other issuers and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by any other issuer. Adjusted EBITDA is the only non-GAAP figure disclosed in this management discussion (See page 4 for reconciliation).

LEGAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws that reflect the Company's current expectations, forecasts and assumptions. Generally, forward looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words or phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: new rail tank car production tracking replacement demand; revenue streams from rail tank car operations improving slowly over the upcoming years when new product offerings gain final Association of American Railroads ("AAR") regulatory approvals; longer term adoption of new product developments by the rail industry; increasing sales volume from newly developed products for a wider variety of rail tank car applications; expectations for capital resources and operations to continue the Company's ability to conduct ongoing business as planned for the foreseeable future; the strategic focus and obtaining AAR approvals for the additional products under field service trial to better grow the Company's financial performance; ; significant growth opportunity in the near future; generating minimal exceedance revenue from motivated customers; revenue growth opportunities; the ability of the Company to exploit its growing competitive advantages in the rail industry; becoming the primary, high quality valve supplier and fully servicing the rail tank car market; the Company's comprehensive proprietary protection program for additional protectable full automation ADAS developments; timing of the grant of the Canadian Patent on the Method technologies; growing future revenues from specialized automotive markets; being on course for new value creation; the commercialization of Kelso's new products; and growing equity value from financial performance generated from a wider range of new proprietary products.

Kelso Technologies Inc.

Management Discussion and Analysis

Year Ended December 31, 2024

(Expressed in US Dollars unless otherwise indicated)



Such forward looking statements 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 such forward looking statements.

Although Kelso believes the Company's anticipated future results, performance or achievements expressed or implied by the forward-looking statements are based upon reasonable assumptions and expectations, they can give no assurance that such expectations will prove to be correct. The reader should not place undue reliance on forward-looking statements as such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kelso to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation; the economic condition of the railroad industry, which is affected by numerous factors beyond the Company's control (including slow sales cycles, creation and adoption of new technologies, the existence of present and possible government regulation and competition); the risk that the Company's products may not work as well as expected; the Company may not be able to break in to new markets because such markets are served by strong and embedded competitors or because of long-term supply contracts; the Company may not be able to grow and sustain anticipated revenue streams; the Company may have underestimated the cost of product development and the time it takes to bring products to market; the Company may not be able to finance the Company's intended product development; that Management may not be able to continue to initiate new product strategies to secure a more reliable growth of financial performance in the future; that testing results for new products may reveal that some or all products being developed are technologically or economically infeasible for market development and may be dropped; that the Company's products may not sell as well as expected, and competitors may offer better or cheaper alternatives to the Company's products; the Company's technologies may not be patentable, and if patents are granted, the Company may not be able to protect the Company's investment in intellectual property if the Company's patents are challenged; the Company's intended technologies may infringe on the intellectual property of other parties; the Company may not have any parties interested in licensing the Company's technology as expected and certain other risks detailed from time-to-time in Kelso's public disclosure documents.

Although the Company has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that could cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are advised to consider such forward-looking statements in light of the risks set forth in the "Risks and Uncertainties" section of this MD&A (Page 17). The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws. Additional information about the Company and Kelso's business activities is available under the Company's profile on SEDAR at www.sedar.com in Canada and on EDGAR at www.sec.gov in the United States or the Company's website at www.kelsotech.com and www.kxiwildertec.com.

DATE OF REPORT

March 25, 2025



SUMMARY OF FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2024

Year Ended December 31	2024	2023	2022
Revenues	\$10,680,468	\$10,819,916	\$10,931,188
Gross Profit	\$4,693,632	\$4,582,447	\$4,908,996
Gross profit margin	44%	42%	45%
Expenses including non-cash items	\$9,315,929	\$6,684,333	\$6,264,413
Net income (loss)	(\$4,622,297)	(\$2,101,886)	(\$1,355,417)
Basic earnings (loss) per share - continuing ops	(\$0.03)	(\$0.00)	\$0.00
Basic earnings (loss) per share - discontinued ops	(\$0.06)	(\$0.04)	(\$0.03)
Non-cash expenses	\$3,136,518	\$1,085,924	\$1,105,811
Adjusted EBITDA (loss) *	(\$1,249,326)	(\$845,487)	(\$83,575)

Liquidity and Capital Resources

Working capital	\$2,125,386	\$5,026,580	\$7,000,568
Cash	\$153,147	\$1,433,838	\$2,712,446
Accounts receivable	\$1,091,303	\$1,065,411	\$1,381,979
Net Equity	\$4,229,030	\$8,720,248	\$10,781,672
Total assets	\$6,570,345	\$9,703,271	\$12,147,143
Common shares outstanding	54,551,139	54,337,995	54,320,086

* Reconciliation of Net Income (Loss) to Adjusted EBITDA

Year Ended December 31	2024	2023	2022
Net Income (Loss)	(\$4,622,297)	(\$2,101,886)	(\$1,355,417)
Unrealized foreign exchange loss (gain)	(\$1,852)	\$1,154	(\$31,648)
Amortization	\$1,209,648	\$785,505	\$1,044,222
Income Taxes	\$236,453	\$170,475	\$166,031
Gain on revaluation of derivative warrant liability	\$0	(\$3,665)	(\$263,446)
Gain on repurchase of RSUs	(\$6,030)	(\$40,785)	(\$45,806)
Write down of inventory	\$588,505	\$214,225	\$260,040
Impairment of assets on discontinued operations	\$1,171,494		
Gain(loss) on sale of property, plant, and equipment	\$9,243	\$0	(\$20,602)
Share based expense	\$165,510	\$129,490	\$163,051
Adjusted EBITDA (loss)	(\$1,249,326)	(\$845,487)	(\$83,575)

Readers are cautioned that Adjusted EBITDA (Loss) should not be construed as an alternative to net income (loss) as determined under IFRS Accounting Standards; nor as an indicator of financial performance as determined by IFRS Accounting Standards; nor a calculation of cash flow from operating activities as determined under IFRS Accounting Standards; nor as a measure of liquidity and cash flow under IFRS Accounting Standards. The Company's method of calculating Adjusted EBITDA may differ from methods used by other issuers and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by any other issuer.



CORPORATE OVERVIEW

Kelso is a diverse product engineering company that specializes in the research, development, production and distribution of proprietary equipment used in various 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, and first responder emergency response equipment.

The Company has firmly established itself as a leading North American producer and supplier of specialized rail tank car equipment. The Company's core rail tank car products include safety relief valves for general purpose and pressure tank cars. Additionally, other products include vacuum relief valves, bottom outlet valves, angle valves and 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, lessors 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 ("TSX") under the trading symbol "KLS". The Company first listed on the Toronto Stock Exchange on May 22, 2014 and on the NYSE American Exchange on October 14, 2014. On March 5, 2024 the Company announced that it had notified the NYSE American of its intention to voluntarily delist its common shares ("Shares") from the NYSE American, which occurred on March 25, 2024. The Shares continue to trade on the TSX.

The Company operates in combination with the Company's wholly owned subsidiaries Kelso Technologies (USA) Inc, KIQ X Industries Inc., Kel-Flo Industries Inc. (formerly Kelso Innovative Solutions Inc.), KIQ Industries Inc. and KXI™ Wildertec™ Industries Inc.

Kelso Technologies (USA) Inc (Kelso Rail)

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

The Company keeps rail products smart, simple and focused on customer needs. Kelso concentrates on sound business fundamentals, operational practices, adjusted EBITDA returns and careful capital management. Today, the Company invests in customer driven co-engineered product development to improve the probability of market adoption as it relates to rail specific products. Management monitors industry trends and regulated technology requirements, as well as select consideration of potential R&D projects that could benefit the Company's future revenue streams.

Currently the Company offers a wide range of proprietary valves and other specialty equipment for rail tank cars and tank trailers. In the 1990's Kelso's origins were based on unique inventions that better served problematic safety issues in the transport of hazmat commodities by rail tank car. The Company's commercial business evolution began with the adoption of the Company's patented constant force Pressure Relief Valves during the surge in crude-by-rail ("CBR") shipments from 2012 to 2015.



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

Rail and Road Transport Equipment

- Pressure Relief Valves
- Vacuum Relief Valves
- Bottom Outlet Valves (under AAR field service trial)
- Pressure Car Pressure Relief Valves
- Pressure Car Angle Valves (under AAR field service trial)
- DOT 407 PRV/VRV for truck tankers (new market)
- One-bolt Manways and related equipment
- Emergency response equipment for hazmat first responders
- No spill locomotive fueling equipment
- Other specialty valves, parts, equipment and services

Potential Tariff Action undertaken by the incoming Trump Administration

The broader industry faces significant risk from potential tariff actions undertaken by the Trump administration. These tariff actions could drastically increase the cost of imported materials and components, which many companies in the sector rely upon for their manufacturing processes. The increased costs could lead to higher prices for end products, reduced profit margins, and potential disruptions in supply chains.

Kelso's Strategic Position: Kelso Technologies is uniquely positioned to mitigate these risks. The company's entire production of valves takes place at its facility in Bonham, Texas, ensuring that all manufacturing processes are under tight control and not subject to the uncertainties of international trade policies. Moreover, Kelso exclusively utilizes local suppliers for its raw materials and components, further insulating the company from potential tariff impacts. This strategic approach not only secures a stable supply chain but also enhances the quality and reliability of Kelso's products, providing a significant competitive advantage in a volatile market. While potential tariff actions pose a substantial risk to the broader industry, Kelso's commitment to domestic production and local sourcing places the company in a favorable position to navigate these challenges effectively.

Rail Tank Car Market Indicators

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

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

- To ensure public safety by mitigating the potential negative environmental impacts of non- accidental releases of hazardous materials in transit.
- To manage negative and positive pressure within the tank thereby reducing the risks of implosion or explosion ensuring the safe containment of hazardous materials while being loaded, transported and unloaded.
- To improve the customers' operating effectiveness, producing economic rewards with proven reliable equipment.
- To build reliable equipment featuring high-quality milled or Made in the USA cast parts, eliminating



problematic imported cast parts that lead to complex expensive repairs for customers.

- To ensure that customers benefit with more profitable in-service time for tank cars.

The Company's working capital was \$2,125,386 as at December 31, 2024 which includes \$3,042,749 in inventories required for timely customers' deliveries. Capital resources generated from rail operations are anticipated to sustain the Company's capacity to continue its business activities for the foreseeable future.

Kelso will continue its efforts to strengthen its portfolio of rail tank car products with a number of active service field trials in process with the AAR for the Company's new standard profile ceramic ball bottom outlet valve, and angle valve. Kelso's pressure tank car PCH valve was recently approved for full commercial use, now adding to future sales growth opportunities.

Over the years the Company has grown a highly respected quality brand and established new direct relationships with HAZMAT shippers. These interested stakeholders have directly helped design our new proprietary Angle Valves for the pressure car market and our Bottom Outlet Valves featuring unique ceramic technology advantages.

These new rail products should sell for higher unit values and are expected to increase our rail car revenue once AAR approvals are secured. Our specialized Angle Valves for the pressure car market have completed their service trial and are in the final stages of the full AAR approval process. The pressure car market fleet for the Company to service is currently in the range of 86,000 tank cars, which has the potential to provide a significant growth opportunity in the near future. Our bottom outlet valves are going into full-service trials and may be able to generate minimal exceedance revenue from motivated customers.

There has been a renewed focus on repurposing or re-qualifying existing tank car fleets. This has presented Kelso with an opportunity to grow its revenues by being able to fully service the repair, retrofit and requalification activities through a broader range of "100% Made in the USA" technologies.

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

In 2017 Kelso through the Company's wholly owned subsidiary KIQ X Industries Inc. (KIQ) began the development of a unique vehicle suspension system that provided new rapid response with off-road capabilities regardless of the climate or the severity of the terrain.

A recent review of the KXI project, conducted in accordance with accounting standards, has provided valuable insights into its current status and potential future pathways. It was determined that KXI was not going to generate commercial revenue in the near future and the expenses for both facility and staff have been accordingly reduced. This review has highlighted some key challenges in securing funding for continued development, leading to a prudent adjustment in the project's carrying value.

While the project faces uncertainties, we recognize the potential value of the underlying technology. Accordingly, we are actively exploring strategic alternatives to optimize its future potential, including sale, licensing, and/or royalty agreements. In particular, we are pursuing potential joint venture partnerships and conducting a rigorous value assessment of the project's core technology. As a result of this review, the capitalized research and development (R&D) was lowered to a nominal \$1 as well as the prototype costs were also lowered to \$1. KXI HD research and development operations are located in a facility in West Kelowna, British Columbia, Canada.

This adjustment represents a responsible and forward-looking approach, positioning us to capitalize on future opportunities and maximize the potential of the KXI project.

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 Association of American Railroads.

PUBLIC INFORMATION POLICY

The Company advises the public about the Company's business progress by way of quarterly and consolidated annual financial statements as well as MD&A reports for those periods. The Company will issue press releases announcing material events that affect the business health of the Company in accordance with the policies and guidelines of the Toronto Stock Exchange. The Company does not give investment advice to investors and does not respond to solicitations to discuss privileged information from the public in accordance with securities laws in Canada and the United States.

Further, Kelso does not provide forward-looking revenue projections to the public. Kelso is a product development enterprise and Management is unable to measure or determine the future financial impact related to new rail regulations, uncertain technology adoption strategies of customers, and the cyclical conditions surrounding the rail tank car industry. All of these factors are well beyond the control of Kelso.

RESULTS OF OPERATIONS

The financial results for the year ended December 31, 2024 continue to represent the business development activities of a light industrial engineering organization. The corporate ambition is to build the Company's reputation of its brands and introduce new product innovations through the research, development and marketing of a diverse range of rail and automotive transportation technologies. The current macroeconomic environment of inflation, high interest rates, and supply chain problems have significantly affected the Company's financial performance as the traditional demand for rail tank car equipment remains depressed.

Kelso generates its revenues and working capital from the sales of equipment for service in the rail tank car industry. Sales performance for the year ended December 31, 2024 was flat to 2023 and the Company improved its gross margin to 44% demonstrating some stability in the business model; however, the Company's rail business activities remain unpredictable as the low production rates of the rail tank car producers continued to challenge the Company's operations in 2024. Combined with repair, retrofit and re-qualification operations, rail business activity is expected to be adequate enough to allow the continuation and eventual growth of the Company's rail operations based on the anticipated introduction of new products.

Revenues, corresponding expenses, financial performance and capital management during the year ended December 31, 2024 reflected Kelso's continued ability to manage the Company's capital resources while navigating difficult market conditions. Financial results met the Company's expectations and reflected the revenues and related operational costs of marketing, producing and distributing the Company's proven line of rail tank equipment as well as key investments in new product development and production capability associated with a more diverse product mix in both rail and automotive markets in the future.

The Company's longer-term strategic plans require Kelso to make ongoing investments in production capabilities (including equipment, lease costs, training and qualifying human resources); railroad and automotive regulatory filings; liability insurance; marketing initiatives; independent lab testing and outsourced specialized industrial engineering services; new patent applications; regulatory public company administration processes in Canada and the United States; pre-sales production planning and tooling for the Company's growing portfolio of rail and automotive products. These costs are written off in the period when they occur and their impact is reflected in the reported financial performance of the Company in the period in which they were incurred.

For the year ended December 31, 2024, the Company reported a net loss of \$4,622,297 (\$0.08 per share) against revenues of \$10,680,468 compared to a net loss of \$2,101,886 (\$0.04 per share) against revenues of \$10,819,916 for the year ended December 31, 2023.



For the year ending December 31, 2024, the Company reported expenses of \$9,079,476 on revenue of \$10,680,468, compared to expenses of \$6,513,858 on FY2023 revenue of \$10,819,916. The increased expenses were mainly due to a one-time KXI project impairment (\$1,171,494) and higher legal costs (\$621,364) from NYSE delisting. Management expects expenses to normalize in FY2025 while implementing expense control measures amid challenging market conditions.

Gross profit margin returns were \$4,693,632 (44% of revenues) for the year ended December 31, 2024 compared to \$4,582,447 (42% of revenues) for 2023. Margins do remain well above industry averages due to the maintenance of production effectiveness and efficiencies stemming from per order-based pricing models that reflect higher raw material cost factors.

Total operational expenses were \$9,079,476 for the year ended December 31, 2024 (includes \$1,171,494 of impairment expense for KXI, \$588,505 of inventory write offs) compared to \$6,513,858 for the year ended December 31, 2023. The new leadership is meticulously examining all expenditures with the intention of eliminating nonessential costs.

Management continues to administrate both the Company's rail operations and KIQ, with a refocus on longer-term business growth in the United States and improved capital markets exposure. This is reflected in the Company's investments in human resources, marketing, sales and production operations for the year ended December 31, 2024. The Company recorded office and administrative costs of \$2,190,137 (2023 – \$2,083,869) and management compensation was \$743,846 (2023 – \$720,500). The increase in management fees was related to overlap in the transition of the management team during the period (press release dated July 09, 2024 and September 03, 2024). There was no accrual for contractual management performance bonuses for the year ended December 31, 2024 as none was earned (2023 – \$Nil). Management bonuses when earned are accrued by quarter and are paid based upon the audited year-end balance not later than May 15 of the following year.

Consulting fees for the year ended December 31, 2024 were \$870,448 (2023 – \$305,778) and investor relations fees were \$42,000 (2023 – \$84,000). The increases in consulting fees were directly related to severance costs, the increased use of independent experts undertaken by management for the strategic review underway, including but not limited to the entire KXI HD system and capital markets strategy analysis.

Accounting, audit and legal fees are cost components of the Company's corporate and product development strategies, arbitration costs, and the required administration functions of a publicly listed industrial company on a major stock exchange. Costs for these professional audit and legal services were \$621,364 for the year ended December 31, 2024 (2023 – \$181,855). The cost includes ongoing US tax and audit requirements. Also included are the costs of complying with the rules and regulations of both the Toronto Stock Exchange and delisting from the NYSE American Exchange which involves the complexities of regulatory documentation and disclosures and Annual Information Form ("AIF") and Securities Exchange Commission documentation (20-F) compliance.

The Company's functional currency is US dollars but Kelso also holds various assets in Canadian dollars. The Canadian dollar has remained volatile in value against the US dollar therefore the Company has recorded a foreign exchange loss of \$39,088 for the year ended December 31, 2024.

The Company has recorded an expense of \$236,453 for income tax for the year ended December 31, 2024 compared to an income tax expense of \$170,475 for 2023.

DISCONTINUED OPERATIONS

During the year ended December 31, 2024, the Company considered its KXI project (KIQ X Industries Inc.) to have met the definition of discontinued operations and as such, assets, liabilities, and results of operations that can be distinguished operationally and for financial reporting purposes from the rest of the Company have been terminated and reported separately in the consolidated financial statements. A recent review of the KXI project, conducted in accordance with accounting standards, has provided valuable insights into its current status and potential future pathways. This review has highlighted some key challenges in securing funding for continued development, leading to a prudent adjustment in the project's



carrying value. While the project faces uncertainties, we recognize the potential value of the underlying technology and are actively exploring strategic options to maximize its future. Specifically, we are pursuing potential joint venture partnerships and assessing the value of the project's core technology. As a result of this review, the capitalized research and development (R&D) was lowered to a nominal \$1 as well as the prototype costs were also lowered to \$1.

For the years ended December 31, 2024, 2023 and 2022, the loss from discontinued operations relate to the following:

	2024	2023	2022
Expenses			
Consulting fees	\$109,489	\$155,692	\$3,822
Accounting and legal	\$78,529	\$98,247	\$303,122
Office and administration	\$493,199	\$402,317	\$386,755
Research	\$986,307	\$594,870	\$593,737
Travel	\$9,753	\$23,985	\$10,820
Marketing	\$62,611	\$82,274	\$122,404
Foreign exchange (gain) loss	(\$55,360)	\$85,468	\$10,878
Amortization	\$115,227	\$75,576	\$78,726
Loss Before the Following:	\$1,799,755	\$1,518,429	\$1,510,264
Loss on sale of equipment	\$9,243	-	\$20,602
Termination settlement	-	\$465,360	-
Gain on lease reduction	(\$11,050)	-	-
Impairment of prototypes and intangibles	\$1,171,494	-	-
Net Loss from Discontinued Operations	\$2,969,442	\$1,983,789	\$1,530,866
Cash flows	2024	2023	2022
Operating Activities	(\$581,933)	(\$1,306,561)	(\$922,625)
Investing activities	(\$746,761)	(\$846,832)	(\$875,495)
Financing activities	(\$106,099)	(\$130,081)	(\$100,310)
Cash flows from discontinued operations	(\$1,434,793)	(\$2,283,474)	(\$1,898,430)

Supplemental Cash Flow Information from Discontinued Operations

	December 31, 2024	December 31, 2023	December 31, 2022
Property, plant and equipment additions in accounts payable and accrued liabilities	\$83,967	\$19,469	\$108,743
Intangible assets additions in accounts payable and accrued liabilities	-	-	\$92,062
Deposit applied to intangible assets	-	-	\$60,462
Interest paid	\$7,660	\$3,169	\$10,193
Income taxes paid	-	-	-



CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the Company's Management to undertake a number of judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and notes thereto. Actual amounts may ultimately differ from these estimates and assumptions. Management reviews the Company's estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

(a) Impairment of long-lived assets

Long-lived assets consist of intangible assets and property, plant and equipment.

Determining the amount of impairment of intangible assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of Management and it is reasonably likely that assumptions and estimates will change from period to period.

(b) Useful lives of depreciable assets

The Company reviews the Company's estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain intangible assets and equipment.

(c) Inventories

The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross margins.

(d) Share-based expense

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. The fair value of the equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility and expected life of the options.

Changes in these assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Restricted and deferred share units are measured using the fair value of the shares on the grant date.

(e) Allowance for credit losses

The Company provides for doubtful debts by analyzing the historical default experience and current information available about a customer's creditworthiness on an account-by-account basis. Uncertainty relates to the actual collectability of customer balances that can vary from the Company's estimation. As at December 31, 2024, the Company has not made an allowance for bad debts.



LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2024 the Company had cash on deposit in the amount of \$153,147, accounts receivable of \$1,091,304 prepaid expenses of \$30,876 and inventory of \$3,042,749, compared to cash on deposit in the amount of \$1,433,838, accounts receivable of \$1,065,411 prepaid expenses of \$134,349 and inventory of \$3,376,005 at December 31, 2023.

The Company had income tax payable of \$68,024 at December 31, 2024 compared to \$10,024 at December 31, 2023.

The working capital position of the Company as at December 31, 2024 was \$2,125,386 compared to \$5,026,580 as at December 31, 2023. The Company anticipates that its capital resources and operations will enable it to continue conducting business as planned for the foreseeable future.

Total assets of the Company were \$6,570,345 as at December 31, 2024 compared to \$9,703,271 as at December 31, 2023. Net assets of the Company were \$4,229,030 as at December 31, 2024 compared to \$8,720,248 as at December 31, 2023. The Company had no interest-bearing long-term liabilities or debt as at December 31, 2024 or December 31, 2023.

During the year ended December 31, 2024, the Company also obtained a line of credit of \$500,000. Amounts drawn on the line of credit bear interest at the Wall Street Journal prime rate (WSJ Prime Rate) plus 1.00%. At December 31, 2024, the WSJ Prime Rate was 7.50%. The line of credit is secured by a general security agreement over the Company's assets. As at December 31, 2024, no amounts had been drawn on the line of credit. Subsequently in Q1-2025, the Company has drawn down \$250,000 and has \$250,000 available on the line of credit as of March 25, 2025

Management takes all necessary precautions to minimize risks, however additional risks could affect the future performance of the Company. Business risks are detailed in the Risks and Uncertainties section of this MD&A.



SELECTED QUARTERLY INFORMATION

	Dec 31, 2024	Sep 30, 2024	Jun 30, 2024	Mar 31, 2024
Revenues	\$2,613,554	\$2,522,719	\$2,891,591	\$2,652,604
Gross Profit	\$1,110,836	\$1,113,228	\$1,359,742	\$1,109,826
Expenses including non-cash items	\$4,124,954	\$1,487,423	\$1,894,967	\$1,808,585
Net income (loss) for the quarter	(\$3,014,118)	(\$361,800)	(\$544,927)	(\$701,452)
Net Loss from Discontinued ops	(\$1,778,364)	(\$276,588)	(\$434,205)	(\$480,285)
Basic earnings (loss) per share	(\$0.05)	(\$0.01)	(\$0.01)	(\$0.01)
Adjusted EBITDA (loss)	(\$820,351)	(\$36,142)	(\$234,217)	(\$158,616)
Common shares outstanding	55,160,086	54,443,422	54,443,422	54,443,422

	Dec 31, 2023	Sep 30, 2023	Jun 30, 2023	Mar 31, 2023
Revenues	\$3,069,359	\$3,138,137	\$2,152,462	\$2,459,958
Gross Profit	\$1,282,077	\$1,421,248	\$792,554	\$1,086,568
Expenses including non-cash items	\$1,483,993	\$1,487,422	\$1,839,673	\$1,873,245
Net income (loss) for the quarter	(\$165,369)	(\$102,722)	(\$1,047,119)	(\$786,677)
Net Loss from Discontinued ops	(\$111,134)	(\$479,058)	(\$529,688)	(\$863,908)
Basic earnings (loss) per share	(\$0.00)	(\$0.00)	(\$0.02)	(\$0.01)
Adjusted EBITDA (loss)	\$16,663	\$277,981	(\$608,513)	(\$531,618)
Common shares outstanding	54,443,422	54,320,086	54,320,086	54,320,086

SELECTED ANNUAL INFORMATION

	2024	2023	2022
Revenues	\$10,680,468	\$10,819,916	\$10,931,188
Cost of goods sold	\$5,986,836	\$6,237,469	\$6,022,192
Gross profit	\$4,693,632	\$4,582,447	\$4,908,996
Expenses including non cash items	\$9,315,929	\$6,684,333	\$6,264,413
Gains (losses) on other items	(\$1,752,162)	(\$635,135)	\$28,610
Income tax expense	\$236,543	\$170,475	\$166,031
Net income (Loss) for the year	(\$4,622,297)	(\$2,101,886)	(\$1,355,417)
Net Loss from Discontinued ops	(\$2,969,442)	(\$1,983,789)	(\$1,530,886)
Number of common shares outstanding	54,551,139	54,443,422	54,320,086
Basic and diluted Loss per common share - continuing operations	(\$0.03)	(\$0.00)	(\$0.00)
Basic and diluted Loss per common share - discontinued operations	(\$0.06)	(\$0.04)	(\$0.03)
Adjusted EBITDA (Loss)	(\$1,249,326)	(\$845,487)	(\$83,575)
Cash	\$153,147	\$1,433,838	\$2,712,446
Working capital	\$2,125,387	\$5,026,580	\$7,000,568
Total assets	\$6,570,345	\$9,703,271	\$12,147,143
Shareholders' equity	\$4,229,030	\$8,720,248	\$10,781,672



CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on the Company's consolidated financial statements would not be significant.

FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate 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 held with major Canadian and US financial institutions and the Company's concentration of credit risk for cash and maximum exposure thereto is as at December 31, 2024 was \$153,147 (2023 – \$1,433,838).

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 Customer accounts receivable and maximum exposure thereto is \$982,114 (2023 – \$972,680). The Company's concentration of credit risk for accounts receivable with respect to its significant customers is as follows: Customer A is \$62,204 (2023 – \$248,948), Customer B is \$482,500 (2023 – \$258,508), Customer C is \$127,691 (2023 – \$117,802) and Customer D is \$44,044 (2023 - \$136,257). 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 the Company's 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 the Company's liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

At December 31, 2024, the Company has \$153,147 (2023 – \$1,433,838) of cash to settle current liabilities of \$2,282,408 (2023 – \$983,023) consisting of the following: accounts payable and accrued liabilities of \$2,138,658 (2023 – \$933,410), income tax payable of \$68,024 (2023 – \$10,024) the current portion of lease liability of \$56,997 (2023 – \$16,636) and RSU liability of \$18,729 (2023 - \$22,953). All payables classified as current liabilities are due within a year. The amount of the Company's remaining undiscounted contractual maturities for the lease liabilities is approximately \$58,906 (2023 – \$16,636 due within one to three 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.

As at December 31, 2024 and 2023, the Company had the following net monetary assets (liabilities) denominated in CAD (amounts presented in USD):

	December 31, 2024	December 31, 2023
Cash	\$32,456	\$50,792
Accounts receivable	70,075	92,731
Accounts payable and accrued liabilities	(278,780)	(128,670)
	\$(176,249)	\$14,853

Based on the above, assuming all other variables remain constant, a 9% (2023 – 2%) weakening or strengthening of the USD against the CAD would result in approximately \$15,862 (2023 – \$297) foreign exchange loss or gain in the consolidated statements of operations and comprehensive 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.

CAPITAL MANAGEMENT

The Company considers the Company's capital to be comprised of capital stock. The Company's objective in managing the Company's capital is to maintain the Company's ability to continue to operate as a going concern and to further develop the Company's business goals.

In order to facilitate the management of the Company's capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular basis to ensure that strategic business objectives are met. There were no changes to the Company's approach to capital management during the year ended December 31, 2024. There are no externally-imposed restrictions on the Company's capital.

Management is undertaking a comprehensive review of all operations and will be working towards implementing new capital management strategies to maximize cash flow performance. While the Company is mindful of the potential for a working capital shortfall if revenues do not meet expectations, the



management team remains steadfast in its pursuit of growth. In order to sustain the Company's strategic initiatives, we are proactively exploring avenues for additional capital, which may include the issuance of securities or securing debt financing. This proactive approach underscores our commitment to the Company's long-term success.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized, and reported within the time periods specified in the securities legislation. Controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's disclosure controls and procedures (as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2024 and have concluded that such disclosure controls and procedures were implemented effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards.

Management has evaluated the design of the Company's ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations (2013) ("COSO"). This evaluation was performed by the Chief Executive Officer and Chief Financial Officer of the Company with the assistance of other Company management and staff to the extent deemed necessary. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the ICFR were effectively designed as at December 31, 2024. Despite the Company's evaluation, Management does recognize that any controls and procedures, no matter how well designed and administrated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

RISKS AND UNCERTAINTIES

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 MD&A. 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.

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

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

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

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 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, the Company may, 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 strategic operations.

"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 sustained 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. While every effort is made to track current and future competitors, new entrants from outside the USA and Canada may be difficult to identify until market entry occurs.

"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 four major customers that comprise the rail tank car manufacturers for a significant portion of the Company's revenue. 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 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 proprietary new products for the rail industry 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 the 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 rail equipment products, certain risks, and in particular, destruction of production facilities by a natural disaster, acts of terrorism, acts of war or patent infringement may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. Of the above-listed risks, only an act of war is truly uninsurable. The Company maintains commercial general liability insurance for claims up to \$2,000,000 in general aggregate and \$1,000,000 each occurrence, as well as \$2,000,000 product-completed operations aggregate. Additionally, the Company maintains umbrella liability insurance for claims up to \$4,000,000 in annual aggregate.

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 is able to mitigate the risks associated with price fluctuations in the Company's raw materials by adjusting the pricing of the Company's products 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 Officers of Kelso Technologies Inc. and Kelso Technologies (USA) Inc. 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 join a competitor or forms a competing company, the Company may lose clients, suppliers, key professionals, technical know-how and staff members.

“International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, tariffs, worker strikes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets.”

Currently, there are various factors that impact geopolitical risk and uncertainty, including but not limited to the elevated geopolitical risk exemplified by ongoing active conflicts in the Middle East, between Israel and Palestine, and in Europe, between Russia and Ukraine, as well as risks associated with China-Taiwan tensions. The imposition of strict economic sanctions by Canada, the United States, the European Union, the United Kingdom and others in response to such conflict may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for the Company. The extent and duration of international conflicts, geopolitical tensions and related international action cannot be accurately predicted, and the effects of such conflicts may magnify the impact of the other risks identified herein.

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.

RELATED PARTY TRANSACTIONS

The remuneration of the Company’s directors and three members of key Management, being the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts:

	December 31, 2024	December 31, 2023
Management compensation	\$ 743,846	\$ 720,500
Share-based expense*	137,240	81,233
Directors’ fees	127,625	149,000
RSU payment**	15,719	12,904
	\$ 1,024,430	\$ 963,637

During the year ended December 31, 2024, the Company paid consulting fees of \$30,000 (2023 – \$60,000; 2022 – \$60,000) to a consulting company owned by the spouse of the previous Chief Executive Officer. The consulting agreement has been terminated and there were no payments made during the third and fourth quarter of 2024.

DISCLOSURE OF OUTSTANDING SHARE DATA AS AT MARCH 25, 2024

- 1) Common shares issued and outstanding: 55,160,086
- 2) Share purchase options outstanding: 750,000



- 3) Share purchase warrants outstanding: Nil
- 4) Restricted share units outstanding: 541,655

OUTLOOK

The company is emerging from a challenging financial landscape, influenced by market dynamics and strategic initiatives in 2024. The new management team has focused on improving operational efficiency and reducing overhead costs, anticipating a positive impact on profitability for 2025.

Kelso Technologies Inc. anticipates sales growth to be flat to slightly positive, in the range of 0% to 5%, compared to fiscal year 2024. A key focus for FY2025 will be maintaining cost discipline as the company prepares for the anticipated upswing in new tank car builds expected to begin starting 2026. This strategic approach will position the company to capitalize on the increased demand and maximize profitability.

Kelso is actively pursuing full Association of American Railroads (AAR) approval for its Bottom Outlet Valve (BOV) and Angle Valve (AV), both of which are well into their required service trial periods. This approval is expected to open new revenue streams, especially given the higher value of complete package offerings for both the general purpose and pressure cars..

The outlook for tank car deliveries has improved slightly from recent history. After averaging just over 8,700 cars per year from 2021 to 2023, actual tank car deliveries for 2024 reached just over 10,000 cars and FTR projects a slight improvement to 10,325 in 2025. This level of production represents a 15.8% increase over the 2021-2023 average and an opportunity for improved results. Industry projections for 2026 and beyond show a positive trend, with anticipated growth to 13,000 units in 2027. Kelso's strategic focus on obtaining AAR approvals aligns with this projected market upturn, positioning the company to capitalize on future demand increases.

SUMMARY

Kelso Technologies is striving for a profitable FY2025. The Company believes it is positioned for new value creation and anticipates further success in established rail markets. With improved sales prospects from larger, diverse markets, Kelso can concentrate on enhancing its equity value through financial performance driven by a broader range of new proprietary products. Despite current market headwinds, the Company's strategic initiatives, including the pursuit of AAR approvals and financial restructuring, are designed to enhance performance in the coming years. The anticipated market recovery post-2025 provides a favorable backdrop for these efforts.

Kelso Technologies Inc.

Frank Busch,
Chief Executive Officer