KELSO TECHNOLOGIES INC.

ANNUAL REPORT

For the Year Ended

December 31, 2024

(Expressed in US Dollars unless otherwise indicated)

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 trail 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.

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 be 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 Tarriff 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 by 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, plan 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 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

KELSO TECHNOLOGIES INC.

Consolidated Financial Statements
For the years ended December 31, 2024, 2023 and 2022
(Expressed in US Dollars)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND DIRECTORS OF KELSO TECHNOLOGIES INC.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Kelso Technologies Inc. (the "Company") and its subsidiaries as of December 31, 2024 and 2023, and the related consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2024, 2023 and 2022, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years ended December 31, 2024, 2023 and 2022, in conformity with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

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smythe

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments.

We have determined that there are no critical audit matters to communicate in our auditor's report.

Smythe LLP

Chartered Professional Accountants

We have served as the Company's auditor since 2006.

Vancouver, Canada
March 25, 2025

SMYTHE LLP | **smythecpa.com**

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		December 31, 2024		December 31, 2023
Assets (Note 5(b))				
Current				
Cash (Note 5)	**$**	**153,147**	$	1,433,838
Accounts receivable (Note 5)		**1,091,304**		1,065,411
Prepaid expenses		**30,876**		134,349
Inventory (Note 6)		**3,042,749**		3,376,005
Assets held for sale (Notes 7 and 18)		**89,719**		-
		4,407,795		6,009,603
Property, plant and equipment (Note 7)		**2,162,549**		3,155,176
Deposit (Note 8)		**-**		67,181
Intangible assets (Note 8)		**1**		471,311
TOTAL ASSETS	**$**	**6,570,345**	$	9,703,271
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 5)	**$**	**2,138,658**	$	933,410
Income tax payable		**68,024**		10,024
Current portion of lease liability (Note 9)		**56,997**		16,636
RSU liability (Note 11)		**18,730**		22,953
		2,282,409		983,023
Long term portion of lease liability (Note 9)		**58,906**		-
TOTAL LIABILITIES		**2,341,315**		983,023
Shareholders' Equity				
Capital Stock (Note 11)		**27,335,459**		27,183,439
Reserves Capital Stock (Note 11)		**4,799,204**		4,820,145
Deficit		**(27,905,633)**		(23,283,336)
		4,229,030		8,720,248
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**6,570,345**	$	9,703,271

Approved on behalf of the Board:

"Jesse Crews" (signed)	"*Paul Cass*" (signed")
Jesse Crews, Director	Paul Cass, Director

See notes to consolidated financial statements

	Capital Stock				
	Number of Common Shares	Amount	Reserve	Deficit	Total
Balance, December 31, 2021	54,320,086	$ 27,123,039	$ 4,758,107	$ (19,826,033)	$ 12,055,113
Share-based expense	-	-	163,051	-	163,051
Repurchase of RSUs	-	-	(81,075)	-	(81,075)
Net loss for the year	-	-	-	(1,355,417)	(1,355,417)
Balance, December 31, 2022	54,320,086	$ 27,123,039	$ 4,840,083	$ (21,181,450)	$ 10,781,672
Shares issued for RSUs	123,336	60,400	(60,400)	-	-
Share-based expense	-	-	129,490	-	129,490
Repurchase of RSUs	-	-	(66,073)	-	(66,073)
Modification of RSUs	-	-	(22,955)	-	(22,955)
Net loss for the year	-	-	-	(2,101,886)	(2,101,886)
Balance, December 31, 2023	54,443,422	$ 27,183,439	$ 4,820,145	$ (23,283,336)	$ 8,720,248
Shares issued for RSUs	716,664	152,020	(152,020)	-	-
Share-based expense	-	-	165,510	-	165,510
Repurchase of RSUs	-	-	(34,431)	-	(34,431)
Net loss for the year	-	-	-	(4,622,297)	(4,622,297)
Balance, December 31, 2024	55,160,086	$ 27,335,459	$ 4,799,204	$ (27,905,633)	$ 4,229,030

See notes to consolidated financial statements

	2024	2023	2022
Revenues (Note 15)	**$ 10,680,468**	$ 10,819,916	$ 10,931,188
Cost of Goods Sold (Notes 6 and 7)	**5,986,836**	6,237,469	6,022,192
Gross Profit	**4,693,632**	4,582,447	4,908,996
Expenses			
Share-based expense (Notes 11 and 12)	**165,510**	129,490	163,051
Management fees (Note 12)	**743,846**	720,500	720,003
Consulting and filing fees	**870,448**	305,778	315,024
Investor relations	**42,000**	84,000	84,000
Accounting and legal	**621,364**	181,855	215,421
Office and administration (Note 12)	**2,190,137**	2,083,869	1,891,712
Research	**373,467**	529,961	474,971
Travel	**105,844**	118,011	100,415
Marketing	**359,638**	312,659	286,852
Foreign exchange loss (gain)	**39,088**	(118,128)	44,353
Amortization (Notes 7 and 8)	**16,217**	12,299	320,926
	5,527,559	4,360,294	4,616,728
(Loss) Income Before the Following:	**(833,927)**	222,153	292,268
Gain on repurchase of RSU's (Note 11)	**6,030**	40,785	45,806
Write-off of inventory (Note 6)	**(588,505)**	(214,225)	(260,040)
Gain on revaluation of derivative warrant liability (Note 10)	**-**	3,665	263,446
(Loss) Income Before Taxes:	**(1,416,402)**	52,378	341,480
Income Tax Expense (Note 13)			
Current	**(236,453)**	(170,475)	(166,031)
Net (Loss) Income for the Year from Continuing Operations	**(1,652,855)**	(118,097)	175,449
Net Loss for the Year from Discontinued Operations (Note 18)	**(2,969,442)**	(1,983,789)	(1,530,866)
Net Comprehensive Loss for the Year	**$ (4,622,297)**	$ (2,101,886)	$ (1,355,417)
Basic and Diluted (Loss) Income Per Share from Continuing Operations	**$ (0.030)**	$ (0.002)	$ 0.003
Basic and Diluted Loss Per Share from Discontinued Operations	**$ (0.055)**	$ (0.037)	$ (0.028)
Weighted Average Number of Common Shares Outstanding	**54,551,139**	54,337,995	54,320,086

See notes to consolidated financial statements

	2024 ($)	2023 ($)	2022 ($)
Operating Activities			
Net income (loss) from continuing operations	**(1,652,855)**	(118,097)	175,449
Items not involving cash:			
Amortization	**108,115**	119,930	439,580
Share-based expense	**165,510**	129,490	163,051
Unrealized foreign exchange	**(3,476)**	893	(30,390)
Gain on repurchase of RSUs	**(6,030)**	(40,785)	(45,806)
Gain on revaluation of derivative warrant liability	**-**	(3,665)	(263,446)
Write-off of inventory	**588,505**	214,225	260,040
	(800,231)	301,991	698,478
Changes in non-cash working capital			
Accounts receivable	**26,902**	317,078	(574,106)
Prepaid expenses	**71,537**	(33,036)	79,922
Inventory	**(255,249)**	556,043	1,133,347
Accounts payable and accrued liabilities	**1,087,096**	(90,164)	(131,234)
Income tax payable	**58,000**	(20,602)	30,626
	988,286	729,319	538,555
Cash Provided by Operating Activities from Continuing Operations	**188,055**	1,031,310	1,237,033
Cash Used in Operating Activities from Discontinued Operations (Note 18)	**(581,933)**	(1,306,561)	(922,625)
	(393,878)	(275,251)	314,408
Investing Activities			
Acquisition of property, plant and equipment	**(11,280)**	-	-
Proceeds from sale of equipment	**7,004**	-	-
Cash Used in Investing Activities from Continuing Operations	**(4,276)**	-	-
Cash Used in Investing Activities from Discontinued Operations (Note 18)	**(746,761)**	(846,832)	(875,495)
	(751,037)	(846,832)	(875,495)
Financing Activities			
Repurchase of RSUs	**(32,625)**	(25,288)	(35,269)
Cash Used in Financing Activities from Continuing Operations	**(32,625)**	(25,288)	(35,269)
Cash Used in Financing Activities from Discontinued Operations (Note 18)	**(106,099)**	(130,081)	(100,310)
	(138,724)	(155,369)	(135,579)
Foreign Exchange Effect on Cash	**2,948**	(1,156)	31,648
Outflow of Cash	**(1,280,691)**	(1,278,608)	(665,018)
Cash, Beginning of Year	**1,433,838**	2,712,446	3,377,464
Cash, End of Year	**153,147**	1,433,838	2,712,446

Supplemental Cash Flow Information (Note 14)

See notes to consolidated financial statements

1. NATURE OF OPERATIONS

Kelso Technologies Inc. (the "Company") was incorporated under the laws of British Columbia on March 16, 1987. The Company designs, engineers, markets, produces and distributes various proprietary pressure relief valves designed to reduce the risk of environmental harm due to non-accidental events in the transportation of hazardous commodities via railroad tank cars. In addition, the Company was previously developing proprietary service equipment to be used in transportation applications. During the year ended December 31, 2024, the Company ceased development activities within its subsidiary, KIQ X Industries Inc. ("KIQ X"), related to the active suspension control system (Note 18).

The Company trades on the Toronto Stock Exchange ("TSX") under the symbol "KLS" and used to trade on the New York Stock Exchange ("NYSE") under the trading symbol "KIQ". The Company listed on the TSX on May 22, 2014 and on the NYSE on October 14, 2014. The Company delisted from the NYSE on March 26, 2024. The Company's head office is located at 305-1979 Old Okanagan Hwy, West Kelowna, British Columbia, V4T 3A4.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These consolidated financial statements have been prepared under the historical cost basis, except for financial instruments, which are stated at their fair values. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(b) Basis of presentation and consolidation:

The consolidated financial statements include the accounts of the Company and its integrated wholly owned subsidiaries, Kelso Technologies (USA) Inc., Kel-Flo Industries Inc., KIQ X ,and KXI Wildertec Industries Inc. which are all Nevada, USA corporations except KIQ X and KXI Wildertec Industries Inc., which were incorporated in British Columbia, Canada. Intercompany transactions and balances have been eliminated on consolidation. Subsidiaries are consolidated from the date upon which control is acquired by the Company and all material intercompany transactions and balances have been eliminated on consolidation.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(c) Functional and presentation currency:

The functional and presentation currency of the Company and its subsidiaries is the US dollar ("USD").

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty:

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. The Company reviews its estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and may impact future periods.

Significant management judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses:

(i) Income taxes:

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company generating future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in classifying transactions and assessing probable outcomes of tax positions taken, and in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

(ii) Functional currency:

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined its functional currency and that of its subsidiaries is the USD. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

(iii) Research and development expenditures:

The application of the Company's accounting policy for research and development expenditures requires judgment in determining whether an activity is determined to be research or development, and if deemed to be development, whether it is probable that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If new information becomes available indicating that it is unlikely that future economic benefits will flow to the Company, the amount capitalized is written off to profit or loss in the period the new information becomes available.

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Significant management judgments (continued)

(iv) Treatment of restricted share units:

The treatment of restricted share units (“RSUs”) requires management to apply judgment in assessing the terms and conditions of the grant, as well as the historical method of settlement, to determine whether RSUs will be equity-settled or cash-settled.

(v) Assets held for sale and discontinued operations:

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the consolidated statements of financial position. Criteria considered by management includes the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale, and the period of time any amounts have been classified within assets held for sale. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Judgment is applied in determining whether disposal groups represent a component of the entity, the results of which should be recorded as discontinued operations in the consolidated statements of operations and comprehensive loss.

Estimation uncertainty

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.

(i) Impairment of long-lived assets:

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

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and those not in use are tested for impairment annually. When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Estimation uncertainty (continued)

(i) Impairment of long-lived assets (continued):

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(ii) Useful lives of depreciable assets:

The Company reviews its 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.

(iii) 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 impact gross margins.

(iv) Share-based expense:

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity settled awards, the fair value is charged to the consolidated statements of operations and comprehensive income loss and credited to reserves, over the vesting period using the graded vesting method, after adjusting for the estimated number of awards that are expected to vest.

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted for share-based payments made to employees or others providing similar services. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires making assumptions to determine the most appropriate inputs to the valuation model including the fair value of the underlying common shares, the expected life of the share option or warrant, volatility, expected forfeiture rate and dividend yield. 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 share-based awards. Warrant liabilities are accounted for as derivative liabilities as they are exercisable in Canadian dollars (note 10).

2. BASIS OF PREPARATION (Continued)

(d) Significant management judgments and estimation uncertainty (continued):

Estimation uncertainty (continued)

(iv) Share-based expense (continued):

Equity-settled restricted and deferred share units are measured using the fair value of the shares on the grant date. Cash-settled restricted and deferred share units are measured using the fair value of the shares on the settlement date (Note 11).

(v) 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.

(vi) Lease liability:

The Company uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency, and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations are estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms, and security in a similar environment. The Company applies judgment in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term.

(e) Approval of the consolidated financial statements:

The consolidated financial statements of the Company for the year ended December 31, 2024 were approved and authorized for issue by the Board of Directors on March 25, 2025.

(f) New accounting standards issued but not yet effective:

The Company has performed an assessment of new standards issued by the International Accounting Standards Board that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on its consolidated financial statements would not be significant.

3. MATERIAL ACCOUNTING POLICIES

The following is a summary of material accounting policies:

(a) Inventory:

Inventory components include raw materials and supplies used to assemble valves and manway covers, as well as finished valves and manway covers. All inventories are recorded at the lower of cost on a weighted average basis and net realizable value. The stated value of all inventories includes purchase and assembly costs of all raw materials and supplies, and attributable overhead and amortization. A regular review is undertaken to determine the extent of any provision for obsolescence. When a circumstance that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The amount of the reversal is limited to the amount of the original write-down.

(b) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. A change in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives as follows:

Patents	– 5 years
Rights	– 2 years
Intellectual Property	– 7 years

Amortization begins when the intangible asset is ready for use. Product and technology development costs, which meet the criteria for deferral and are expected to provide future economic benefits with reasonable certainty are deferred and amortized over the estimated life of the products or technology once commercialization commences.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any. Leasehold improvements and prototypes are amortized on a straight-line basis over the lease term and estimated useful life respectively. Amortization is calculated over the estimated useful life of the property, plant and equipment at the following annual rates:

Building	– 4% declining-balance
Production equipment	– 20% declining-balance
Leasehold improvements	– 5 year straight-line
Prototypes	– 2 year straight-line

(d) Revenue recognition:

Revenues from the sale of pressure relief valves, manway securement systems and related products is recognised when all the performance obligations identified in the customer contract, typically consisting of a purchase order, are satisfied. The performance obligations in a typical purchase order are the manufacture of the pressure relief valve, manway securement system, and related accessories and delivery of those items. The Company recognizes revenue when collection is reasonably assured.

(e) Impairment of long-lived assets:

The Company's tangible and intangible assets with definite useful lives are reviewed for any indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Intangible assets not yet available for use or those with indefinite useful lives are tested annually for impairment. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflow from other assets or groups of assets.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(f) Income taxes:

(i) Current and deferred income taxes:

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of operations and comprehensive loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(f) Income taxes (continued):

(i) Current and deferred income taxes (continued):

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(ii) Texas margin tax:

Effective January 1, 2007, the state of Texas enacted an annual franchise tax known as the Texas margin tax, which is equal to 1% of the lesser of: (a) 70% of a taxable entity's revenue; and (b) 100% of total revenue less, at the election of the taxpayer: (i) cost of goods sold; or (ii) compensation. A provision for the margin tax owing has been recorded in the consolidated statements of operations and comprehensive loss.

(g) Foreign currency translation:

The accounts of foreign balances and transactions are translated into USD as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect at the consolidated statement of financial position date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenue and expense items (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange prevailing at the transaction date.

Gains and losses arising from translation of foreign currency are included in the determination of net income (loss).

3. MATERIAL ACCOUNTING POLICIES (Continued)

(h) Earnings per share:

The Company presents basic earnings per share data for its common shares, calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of earnings and diluted loss per share for the years ended December 31, 2024, 2023, and 2022 excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Share-based expense:

The Company has a stock option plan, restricted share unit plan, and deferred share unit plan, which are described in note 11. The Company grants equity-settled share-based awards to directors, officers and employees, and consultants. Share-based expense to employees is measured at the fair value of the equity instruments at the grant date. The fair value of share options is measured using the Black-Scholes option pricing model. Restricted and deferred share units are measured using the fair value of the shares on the grant date. The share-based expense to employees is recognized over the vesting period using the graded vesting method.

Fair value of share-based expenses for non-employees is recognized and measured at the date the good or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based expense is measured at the fair value of the equity instrument issued.

For both employees and non-employees, the fair value of equity-settled share-based expense is recognized on the consolidated statements of operations and comprehensive loss, with a corresponding increase in reserves. The amount recognized as expense is adjusted to reflect the number of awards expected to vest. Consideration received on the exercise of stock options is recorded in capital stock and the related share-based expense in reserves is transferred to capital stock. When restricted share units (“RSUs”) are settled in shares, the recorded fair value is transferred from reserves to capital stock.

For both employees and non-employees, the fair value of cash-settled RSUs is recognized as share-based expense, with a corresponding increase in RSU liability over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash-settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the RSU liability is reduced by the cash payout.

After the initial grant of RSUs, the Company may determine that equity-settled awards should be treated as cash-settled going forward. In this instance, the change is accounted for as a modification of the original awards. On the date of modification, a liability is recognized based on the fair value of the vested awards to date. A corresponding reduction in reserves is recognized only to the extent of the fair value of the original awards. Any incremental fair value of the cash-settled award over the equity-settled award on modification date is recognized immediately in share-based expense.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(j) Capital stock:

Proceeds from the exercise of stock options and warrants are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Any previously recorded share-based expense included in the share-based expenses reserve is transferred to capital stock on exercise of options and warrants. Capital stock issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock, and any related amount recorded in warrants reserve is transferred to capital stock.

Canadian dollar denominated share purchase warrants are classified as a derivative warrant liability under the principles of IFRS 9 *Financial Instruments* (note 10). As the exercise price of the share purchase warrant is fixed in Canadian dollars and the functional currency of the Company is the USD, the share purchase warrants are considered a derivative liability in accordance with IAS 32 *Financial Instruments: Presentation* as a variable amount of cash in the Company's functional currency will be received upon exercise. These types of share purchase warrants are recognized at fair value using a option pricing model at the date of issue. Share purchase warrants are initially recorded as a liability at fair value with any subsequent changes in fair value recognized in profit or loss. Upon exercise of the share purchase warrants with exercise prices in a currency other than the Company's functional currency, the share purchase warrants are revalued at the date of exercise and the total fair value of the exercised share purchase warrants is reallocated to capital stock. The proceeds generated from the payment of the exercise price are also allocated to equity.

(k) Financial instruments:

(i) Financial assets:

<u>Initial recognition and measurement</u>

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. A financial asset is measured at amortized cost if it meets the conditions that: i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued):

(i) Financial assets (continued):

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are carried in the consolidated statements of financial position at fair value with changes in fair value therein, recognized in the consolidated statements of operations and comprehensive loss. The Company classifies cash as measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance. The Company classifies accounts receivable, prepaid expenses and deposits as measured at amortized cost.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The contractual rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities:

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

Amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method. The Company classifies accounts payable and accrued liabilities, income tax payable and lease liabilities as measured at amortized cost.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued):

(ii) Financial liabilities (continued):

Fair value through profit or loss ("FVTPL")

A financial liability measured at FVTPL is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company classifies derivative warrant liability and RSU liability as measured at FVTPL.

Derecognition

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

(l) Leases:

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

IFRS 16 *Leases*, provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

3. MATERIAL ACCOUNTING POLICIES (Continued)

(l) Leases (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss in the period in which they are incurred.

The ROU assets are presented within "Property, plant and equipment" and the lease liabilities are presented in "Lease liability" on the consolidated statements of financial position.

(m) Research and development:

The Company incurs costs on activities that relate to research and development of new products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral, including technical and economic feasibility. Development costs are capitalized only if the expenditures can be reassured reliably, the product or process is technically and commercial feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Deferred development costs are amortized over the life of related commercial production, or in the case of serviceable property and equipment, are included in the appropriate property group and are depreciated over the estimated useful life. As at December 31, 2024, the Company has capitalized $1 (2023 - $471,311) of research and development costs as part of intellectual property (Note 8).

3. MATERIAL ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities:

Provisions for losses arising from claims, litigation and other sources are recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reasonably estimated. Provisions are adjusted as additional information becomes available or circumstances change. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

4. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

The Company's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to meet its strategic goals.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. There have been no changes to the Company's approach to capital management during the year ended December 31, 2024. Management reviews the capital structure on a regular basis to ensure the above objectives are met. The Company is not subject to externally imposed capital requirements.

5. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, accounts receivable, prepaid expenses, deposits, and accounts payable and accrued liabilities and income tax payable, as their carrying values approximate their fair values due to their short-term nature. The RSU liability is classified as level 1 as its value is based on the market price of the Company's common shares. The lease liability is classified as level 3.

The Company has exposure to the following risks from its 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 $153,147 (2023 - $1,433,838).

5. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (continued):

With respect to its accounts receivable, the Company assesses the credit ratings 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 customers' 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) (Note 15).

To reduce the credit risk of accounts receivable, the Company regularly reviews the collectability of the customers' accounts receivable to ensure there is no indication that these amounts will not be fully recoverable. The Company's aging of customer accounts receivable, excluding goods and services tax receivable, at December 31, 2024 and 2023 is as follows:

	December 31, 2024	December 31, 2023
Current	**$732,392**	$746,738
1 – 60 days	**203,164**	211,896
61 days and over	**46,558**	14,046
	$982,114	$972,680

(b) Liquidity risk:

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

At December 31, 2024, the Company has $153,147 (2023 - $1,433,838) of cash to settle current liabilities of $2,282,409 (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 $18,730 (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 liability is approximately $124,387 (2023 - $17,352 due within one year) due within one to three years (Note 9).

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.

5. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk:

The significant market risks to which the Company could be 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. As at December 31, 2024 and 2023, the Company is not exposed to significant interest rate risk.

(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.

6. INVENTORY

	December 31, 2024	December 31, 2023
Finished goods	**$94,207**	$100,613
Raw materials and supplies	**2,948,542**	3,275,392
	$3,042,749	$3,376,005

Included in cost of goods sold is $4,681,670, (2023 - $4,915,574; 2022 - $4,695,464) of direct material costs recognized as expense. Inventory written-off during the year was $588,505 (2023 - $214,225; 2022 - $260,040).

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Leasehold Improvements	Production Equipment	Prototypes	ROU Asset	Total
Balance, December 31, 2022	$ 12,558	$2,963,983	$ 43,715	$1,032,070	$ 3,338,889	$ 316,470	$7,707,685
Additions	-	-	-	-	665,496	-	665,496
Disposals	-	-	-	-	(79,010)	-	(79,010)
Balance, December 31, 2023	$ 12,558	$2,963,983	$ 43,715	$1,032,070	$ 3,925,375	$ 316,470	$8,294,171
Additions	-	-	-	69,245	758,454	219,408	1,047,107
Disposals	-	-	-	(134,121)	-	-	(134,121)
Lease reduction (Note 9)	-	-	-	-	-	(162,238)	(162,238)
Impairment (Note 18)	-	-	-	(55,047)	(585,843)	-	(640,890)
Transfer to assets held for sale (Note 18)	-	-	-	(10,425)	(79,294)	-	(89,719)
Balance, December 31, 2024	$ 12,558	$2,963,983	$ 43,715	$ 901,722	$ 4,018,692	$ 373,640	$8,314,310
Accumulated Amortization							
Balance, December 31, 2022	$ -	$ 883,171	$ 43,715	$ 771,589	$ 2,498,589	$ 233,359	$4,430,423
Amortization	-	81,992	-	48,317	590,784	66,489	787,582
Disposals	-	-	-	-	(79,010)	-	(79,010)
Balance, December 31, 2023	$ -	$ 965,163	$ 43,715	$ 819,906	$ 3,010,363	$ 299,848	$5,138,995
Amortization	-	78,762	-	48,557	1,008,328	74,001	1,209,648
Disposals	-	-	-	(79,878)	-	(117,004)	(196,882)
Balance, December 31, 2024	$ -	$1,043,925	$ 43,715	$ 788,585	$ 4,018,691	$ 256,845	$ 6,151,761
Carrying Value							
December 31, 2024	$ 12,558	$1,920,058	$ -	$ 113,137	$ 1	$ 116,795	$2,162,549
December 31, 2023	$ 12,558	$1,998,820	$ -	$ 212,164	$ 915,012	$ 16,622	$3,155,176

Included in inventory is $nil (2023 - $2,077; 2022 - $3,025) of amortization related to property, plant and equipment.

Included in cost of goods sold is $91,898 (2023 - $107,631; 2022 - $118,654) of amortization related to property, plant and equipment.

Included in amortization expense is $16,217 (2023 - $12,299; 2022 - $320,926) of amortization related to property, plant and equipment.

Included in research expense (in net loss from discontinued operations) is $986,307 (2023 - $589,999; 2022 - $525,916) of amortization related to property, plant and equipment.

8. INTANGIBLE ASSETS

Cost	Patent	Rights	Intellectual Property	Total
Balance, December 31, 2021	$ 40,840	$ 672,959	$ 169,973	$ 883,772
Additions	-	-	301,338	301,338
Balance, December 31, 2022	$ 40,840	$ 672,959	$ 471,311	$ 1,185,110
Additions	-	-	-	-
Balance, December 31, 2023	$ 40,840	$ 672,959	$ 471,311	$ 1,185,110
Additions	-	-	-	-
Impairment (Note 18)	-	-	(471,310)	(471,310)
Balance, December 31, 2024	$ 40,840	$ 672,959	$ 1	$ 713,800
Accumulated Amortization				
Balance, December 31, 2021	$ 40,840	$ 368,980	$ -	$ 409,820
Amortization	-	303,979	-	303,979
Balance, December 31, 2022	$ 40,840	$ 672,959	$ -	$ 713,799
Amortization	-	-	-	-
Balance, December 31, 2023	$ 40,840	$ 672,959	$ -	$ 713,799
Amortization	-	-	-	-
Balance, December 31, 2024	$ 40,840	$ 672,959	$ -	$ 713,799
Carrying Value				
December 31, 2024	$ -	$ -	$ 1	$ 1
December 31, 2023	$ -	$ -	$ 471,311	$ 471,311

During the year ended December 31, 2010, the Company entered into an agreement to acquire a patent related to their manway securement systems. The Company is obligated to pay a 5% royalty in accordance with the agreement.

On November 10, 2016, the Company entered into a technology development agreement to acquire all intellectual property rights (the "Products") of G&J Technologies, Inc. (the "Vendor"). The Vendor also entered into a consulting agreement with the Company for a fee of $10,000 per month.

The Company is also required to pay a royalty to the Vendor of 2.5% of the net sales earned by the Company, to be paid within 30 days of the end of each calendar quarter. As at December 31, 2024, the Company has not earned any revenue from the sale of the Products.

On March 3, 2021, the Company terminated the technology development agreement, including the consulting agreement for $10,000 per month. The Company will still maintain all intellectual property rights acquired under the agreement and will still be liable for the 2.5% royalty. This termination was in the arbitration process and a judgment was rendered on April 25, 2023, awarding G&J Technologies Inc. $465,360 for termination fees, asset payment issued and legal fees and recorded in termination settlement (Note 18). All amounts awarded were paid during the year ended December 31, 2023.

8. INTANGIBLE ASSETS (Continued)

On October 25, 2021, the Company entered into a technology services agreement with a third-party developer (the "Agreement") to further develop its internal intellectual property related to the active suspension control system for no road vehicles. The Agreement consists of total payments of $663,419 ($810,000 CAD). Intellectual property developed under the Agreement will be the property of the Company and certain background technology of the developer will be licensed by the Company for the purpose of manufacturing and selling the related products. The royalty payment for the license will be $27,000 CAD per year for a period of 10 years (the "License Fee") with the first-year fee waived and the second year discounted 50%. If the Company purchases a minimum of 10 control systems designed under the Agreement in any year, the License Fee for that year will be waived. The Company may receive an unrestricted license to use the background technology of the developer at any time by paying the cumulative remaining License Fees plus a one-time payment of $50,000.

At December 31, 2024, the Company had a deposit of $nil (2023 - $67,181) to be applied over the term of the Agreement.

9. LEASE LIABILITY

The Company has a lease agreement for its warehouse space in West Kelowna, British Columbia.

The continuity of the lease liability for the years ended December 31, 2024 and 2023 is as follows:

Lease liability	Warehouse	Vehicles	Total
Lease liability, December 31, 2021	$153,288	$134,425	$287,713
Disposals	-	(40,686)	(40,686)
Lease payments	(77,835)	(32,668)	(110,503)
Lease interest	6,357	3,836	10,193
Lease liability, December 31, 2022	$81,810	$64,907	$146,717
Lease payments	(67,794)	(65,845)	(133,639)
Lease interest	2,620	938	3,558
Lease liability, December 31, 2023	$16,636	$-	$16,636
Additions	383,391	-	383,391
Lease payments	(106,099)	-	(106,099)
Lease reduction	(178,025)	-	(178,025)
Lease liability, December 31, 2024	$115,903	$-	$115,903
Current portion	$56,997	-	$56,997
Long-term portion	58,906	-	58,906
	$115,903	$-	$115,903

During the year ended December 31, 2023, the Company paid a total of $61,421 to buy out its remaining vehicle leases, which is included in the lease payments above. The difference between the lease liability and the buy out price was $196, which is included in lease interest above.

9. LEASE LIABILITY (Continued)

During the year ended December 31, 2024, the Company entered into a new lease, commencing February 1, 2024, for a period of three years. The new lease resulted in an increase to the lease liability of $383,391. On September 6, 2024, the lease was renegotiated to reduce the lease space in use, which resulted in a lease liability reduction of $178,025.

10. DERIVATIVE WARRANT LIABILITY

The Company's derivative warrant liability arises as a result of the issuance of warrants exercisable in CAD (Note 12(c)). As the denomination is different from the Company's USD functional currency, the Company recognizes a derivative liability for these warrants and remeasures the liability at the end of each reporting period.

Changes in respect of the Company's derivative warrant liability are as follows:

Balance, December 31, 2021	$	267,111
Fair value of adjustment		(263,446)
Balance, December 31, 2022	$	3,665
Fair value of adjustment		(3,665)
Balance, December 31, 2023 and 2024	**$**	**-**

Valuation of the derivative warrant liability requires the use of highly subjective estimates and assumptions. The expected volatility used is based on the Company's historical share prices. The risk-free interest rate for the periods within the expected life of the warrants is based on Canadian government benchmark bond with an approximate equivalent term. The expected life is based on the contractual term. Changes in the underlying assumptions can materially affect the fair value estimates. The Company uses an option pricing model to estimate the liability's fair value.

On March 4, 2023, all of the warrants expired unexercised. As a result, the Company revalued the derivative liability to $Nil and recorded a fair value gain of $3,665.

11. CAPITAL STOCK

Authorized:

Unlimited Class A non-cumulative, preferred shares without par value, of which 5,000,000 are designated Class A, convertible, voting, preferred shares. No preferred shares have been issued.

Unlimited common shares without par value.

(a) Common shares:

During the year ended December 31, 2024, the Company issued 716,664 common shares valued at $152,020. These shares were issued pursuant to RSU agreements.

During the year ended December 31, 2023, the Company issued 123,336 common shares valued at $60,400. These shares were issued pursuant to RSU agreements.

There were no share issuances during the year ended December 31, 2022.

11. CAPITAL STOCK (Continued)

(b) Stock options:

The Company has a stock option plan (the "Plan") available to employees, directors, officers and consultants with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the Company is authorized to issue options to purchase an aggregate of up to 10% of the Company's issued and outstanding common shares. Each option can be exercised to acquire one common share of the Company. The exercise price for an option granted under the Plan may not be less than the market price at the date of grant less a specified discount dependent on the market price.

Options to purchase common shares have been granted to directors, employees and consultants as follows:

Exercise Price	Expiry Date	December 31, 2023	Granted	Exercised	Forfeited/ Expired	December 31, 2024
$0.78(USD)	August 19, 2024	700,000	-	-	(700,000)	-
$0.82(USD)	November 8, 2024	10,000	-	-	(10,000)	-
$0.76(USD)	February 11, 2025	200,000	-	-	-	200,000
$0.75(USD)	August 18, 2025	750,000	-	-	-	750,000
Total outstanding		1,660,000	-	-	(710,000)	950,000
Total exercisable		1,660,000	-	-	(710,000)	950,000

Exercise Price	Expiry Date	December 31, 2022	Granted	Exercised	Forfeited/ Expired	December 31, 2023
$0.57(USD)	April 17, 2023	200,000	-	-	(200,000)	-
$0.50(USD)	August 20, 2023	700,000	-	-	(700,000)	-
$1.45(USD)	May 17, 2024	10,000	-	-	(10,000)	-
$0.78(USD)	August 19, 2024	700,000	-	-	-	700,000
$0.82(USD)	November 8, 2024	10,000	-	-	-	10,000
$0.76(USD)	February 11, 2025	200,000	-	-	-	200,000
$0.75(USD)	August 18, 2025	750,000	-	-	-	750,000
Total outstanding		2,570,000	-	-	(910,000)	1,660,000
Total exercisable		2,570,000	-	-	(910,000)	1,660,000

Subsequent to the year ended December 31, 2024, the 200,000 options exercisable at $0.76(USD) expired unexercised.

A summary of the Company's stock options as at December 31, 2024 and 2023, and changes for the years then ended are as follows:

	Number	**Weighted Average Exercise Price**
Outstanding, December 31, 2022	2,570,000	$0.68
Expired	(910,000)	$0.53
Outstanding and exercisable, December 31, 2023	1,660,000	$0.76
Expired	(710,000)	$0.78
Outstanding and exercisable, December 31, 2024	950,000	$0.75

The weighted average contractual life for the remaining options at December 31, 2024 is 0.52 years (2023 - 1.15) years.

11. CAPITAL STOCK (Continued)

(b) Stock options (continued):

Share-based expense

Share-based expense of $Nil (2023 - $Nil; 2022 - $7,733) was recognized in the year ended December 31, 2024 for stock options.

(c) Warrants:

Warrants outstanding as at December 31, 2024 and 2023 are summarized below:

	Share Purchase warrants		Weighted average exercise price
Outstanding, December 31, 2022	3,500,005	$	0.96[1]
Expired	(3,500,005)	$	0.96[1]
Outstanding, December 31, 2023 and 2024	-	$	-

[1] These warrants are denominated in CAD and have been re-translated based on the exchange rate in effect as at December 31, 2022 of $1.00 = $1.3544 CAD.

During the year ended December 31, 2023, all warrants expired unexercised.

(d) Restricted share units:

On April 28, 2021, the Company implemented a Restricted Share Unit Plan (the "RSU Plan"). Pursuant to the RSU Plan, the Company will grant RSUs to directors, officers, employees, and consultants for services as approved from time to time by the Board. The maximum number of common shares made available for issuance pursuant to the RSU Plan shall not exceed 5% of common shares issued and outstanding and shall not exceed 10% of the common shares issued and outstanding less any common shares reserved for issuance under all other share compensation arrangements. The vesting terms, settlement, and method of settlement of the RSUs granted under the RSU Plan will be determined by the Board of Directors.

A summary of the Company's RSUs as at December 31, 2024 and 2023, and changes for the periods then ended, are as follows:

Outstanding, December 31, 2022	645,000
Settled	(123,336)
Repurchased	(130,850)
Granted	525,000
Outstanding, December 31, 2023	915,814
Settled	(716,664)
Repurchased	(251,667)
Cancelled / forfeited	(155,826)
Granted	750,000
Outstanding December 31, 2024	541,657

11. CAPITAL STOCK (Continued)

(d) Restricted share units (continued):

During the year ended December 31, 2024, the Company granted 750,000 (2023 - 525,000; 2022 - 410,000) Incentive RSUs with an estimated fair value of $92,837 (2023 - $61,574; 2022 - $123,000) based on the fair market value of one common share on the date of issuance. The fair value will be recognized as an expense using the graded vesting method over the vesting period. The RSUs granted in 2024 vest as follows: 66.66% immediately, 16.67% one year after grant, and 16.67% the second year after grant. The RSUs granted in 2023 and 2022 vest as follows: 33% one year after grant and 33% every year thereafter.

During the year ended December 31, 2024, the Company repurchased 251,667 (2023 - 130,850; 2022 - 117,500) equity-settled RSUs with a fair value of $38,655 (2023 - $66,073; 2022 - $81,075) through a cash payment of $32,625 (2023 - $25,288; 2022 - $35,269) based on an average share price of $0.13 (2023 - $0.19; 2022 - $0.30) on vesting date, and recorded a gain on repurchase of RSUs of $6,030 (2023 - $40,785; 2022 - $45,806).

For the year ended December 31, 2024, the RSU liability decreased to $18,729 to recognize the vested portion of previously granted and outstanding RSUs. This represents 541,657 (2023 - 915,814) RSUs valued at $0.13 (2023 - $0.15).

In connection with the RSUs awarded, the Company recognized share-based expense of $165,510 (2023 - $129,490; 2022 - $155,318) for the year ended December 31, 2024.

(e) Deferred share units:

On April 28, 2021, the Company implemented a Non-Employee Directors Deferred Share Unit Plan (the “DSU Plan”). Pursuant to the DSU Plan, non-employee directors may elect to receive deferred share units (“DSUs”) in lieu of a cash payment of up to 50% of their annual base compensation determined by the Board. The maximum number of common shares made available for issuance pursuant to the DSU Plan shall not exceed 2% of the common shares issued and outstanding and shall not exceed 10% of the common shares issued and outstanding less any common shares reserved for issuance under all other share compensation agreements.

At December 31, 2024 and 2023, no DSUs have been granted to non-employee directors.

12. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company's directors and other 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	December 31, 2022
Management compensation	**$ 743,846**	$ 720,500	$ 720,003
Share-based expense*	**137,240**	81,233	105,792
Directors' fees	**127,625**	149,000	163,000
RSU payment**	**15,719**	12,904	23,000
	$ 1,024,430	$ 963,637	$ 1,011,795

* Share-based expense consists of options and RSUs awarded to key management and directors, measured at the fair value of the equity instrument on grant date and does not include any cash compensation.
** RSU payment consists of cash paid for the repurchase of vested RSUs held by key management and directors

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.

13. INCOME TAXES

The Company has $8,408,956 in non-capital losses in Canada that relate to discontinued operations. These losses may be applied against future taxable income within KIQ X, if any, and expire between 2039 and 2044. The Company has $728,548 in non-capital losses in the US that may be applied against future taxable income.

The tax effect items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2024 and 2023 are as follows:

	December 31, 2024	December 31, 2023
Deferred income tax assets		
Non-capital loss carry-forwards	$ 386,876	$ 328,375
Non-capital loss carry-forwards	(276,091)	(8,082)
Deferred income tax assets	$ 110,785	$ 320,293
Excess of carrying value over tax value of property, plant and equipment	$ (110,785)	$ (320,293)
Deferred income tax liability	$ (110,785)	$ (320,293)
Net deferred tax asset (liability)	$ -	$ -

13. INCOME TAXES (Continued)

Significant unrecognized tax benefits and unused tax losses for which no deferred tax assets is recognized as of December 31, 2024 and 2023 are as follows:

		December 31, 2024		December 31, 2023
Non-capital losses carried forward	**$**	**2,631,428**	$	2,138,912
Intangible assets		**235,980**		118,287
Lease liability		**31,294**		4,669
Unrecognized deductible temporary differences	**$**	**2,898,702**	$	2,261,868

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate to loss before income taxes as follows:

		December 31, 2024		December 31, 2023		December 31, 2022
Loss before income taxes	**$**	**(4,622,297)**	$	(2,101,886)	$	(1,355,417)
Statutory income tax rate		**27.00%**		27.00%		27.00%
Income tax benefit computed at statutory tax rate		**(1,248,020)**		(567,509)		(365,963)
Items not deductible for income tax purposes		**413,516**		263,791		34,640
Under provision of taxes in prior years		**63,706**		(174,600)		49,298
Change in timing differences		**79,743**		242,678		234,499
Impact of foreign exchange on tax assets and liabilities		**59,914**		(18,970)		44,097
Unused tax losses and tax offsets not recognized		**847,064**		399,572		147,036
Income tax expense		**215,923**		144,962		143,607
Texas margin tax and branch tax		**20,530**		25,513		22,424
Income tax expense	**$**	**236,453**	$	170,475	$	166,031

14. SUPPLEMENTAL CASH FLOW INFORMATION

		December 31, 2024		December 31, 2023		December 31, 2022
Proceeds from sale of equipment included in accounts receivable	**$**	**39,114**	$	-	$	-
Interest paid	**$**	**1,118**	$	3,169	$	10,193
Income taxes paid	**$**	**235,502**	$	191,731	$	57,611

15. SIGNIFICANT CUSTOMERS

The following table represents sales to individual customers exceeding 10% of the Company's revenues:

	December 31, 2024	December 31, 2023	December 31, 2022
Customer A	**$ 3,758,568**	$ 5,799,424	$ 5,312,839
Customer B	**$ 1,659,744**	$ 1,245,467	$ 2,968,550
Customer C	**$ 1,135,587**	$ 1,514,352	$ 662,198
Customer D	**$ 1,386,143**	$ 287,594	$ -

The customers are major US corporations who have displayed a pattern of consistent timely payment of amounts owing from sales.

16. EMPLOYEE BENEFITS

Total employee benefit expenses, including salary and wages, management compensation, share-based expense and benefits for the year ended December 31, 2024 amounted to $3,408,910 (2023 - $4,083,605; 2022 - $3,570,149).

17. SEGMENTED INFORMATION

The Company operates one business segment with operations and long-term assets in the United States. The business segment consists of the design, production and distribution of various proprietary products for the rail sector. At December 31, 2024, long-term assets of $2,045,753 (2023 - $2,187,082) relates to this segment.

During the year ended December 31, 2024, the Company ceased operations in this segment and, as such, has disclosed it as a discontinued operation (Note 18). Prior to the ceased operations, the Company also operated a segment development the KXI HD control system for no road vehicles. As at December 31, 2024, long-term assets of $116,796 (2023 - $1,506,586) relates to the heavy-duty suspension control system located in Canada.

18. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year ended December 31, 2024, the Company opted to cease operations related to the development of its KXI HD control system (within its wholly-owned subsidiary, KIQ X). Management determined the operations of KIQ X to have met the definition of discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Consequently, the operations of KIQ X have been classified separately from the Company's continuing operations to net loss from discontinued operations as a single line in the consolidated statements of operations and comprehensive loss.

As a result of ceasing operations within KIQ X, indicators of impairment existed leading to a test of the recoverable amount of the KIQ X cash-generating unit, which consists of equipment, prototypes and intangible assets. A value-in-use calculation is not applicable as the Company does not have any expected cash flows from using the assets at this stage of operations. In estimating the fair value less costs of disposal, management estimated a recoverable amount of $89,719, representing the pending sale transactions as at December 31, 2024. As a result, a total of $89,719 was reclassified from property, plant and equipment to assets held for sale. This resulted in an impairment loss of $1,171,494. As this valuation technique requires management's judgment and estimates of the recoverable amount, it is classified within Level 3 of the fair value hierarchy.

18. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

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 from discontinued operations are as follows:

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 used in 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	-	-	-