

Kilso Technologies

PROCESSED 82 27 11
MAR 05 2002
THOMSON
FINANCIAL
SUPPL



British Columbia Securities Commission

02 FEB 22 AM 8:45

QUARTERLY AND YEAR-END REPORT

FINANCIAL (previously Form 61)

Freedom of Information and Protection of Privacy Act: The personal information requested on this form is collected under the authority of and used for the purpose of administering the Securities Act. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6731), PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393

INSTRUCTIONS

This report must be filed by Exchange Issuers within 60 days of the end of their first, second and third fiscal quarters and within 140 days of their year end. "Exchange issuer" means an issuer whose securities are listed and posted for trading on the Canadian Exchange and are not listed and posted on any other exchange quoted on a trading or quotation system in Canada. Three schedules must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements prepared in accordance with generally accepted accounting principles are required as follows:

For the first, second and third financial quarters:

Interim financial statements prepared in accordance with section 1751 of the CICA Handbook, including the following: balance sheet, income statement, statement of retained earnings, cash flow statement, and notes to the financial statements.

The periods required to be presented, consistent with CICA Handbook section 1751, are as follows:

- a balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding fiscal year;
- a statement of retained earnings cumulatively for the current fiscal year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding fiscal year; and
- income statements and cash flow statements for the current interim period and cumulatively for the current fiscal year-to-date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding fiscal year.

For the financial year end:

Annual audited financial statements prepared on a comparative basis.

Exchange Issuers with a fiscal year of less than or greater than 12 months should refer to National Policy No. 51 *Changes in the Ending Date of a Financial Year and in Reporting Status* for guidance.

Issuers in the development stage are directed to the guidance provided in CICA Accounting Guideline AcG-11 *Enterprises in the Development Stage* that states "enterprises in the development stage are encouraged to disclose in the income statement and in the cash flow statement cumulative balances from the inception of the development stage."

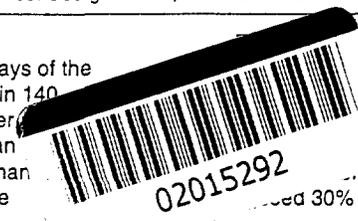
Issuers that have been involved in a reverse take-over should refer to the guidance found in BCIN #52-701 (previously NIN #91/21) with respect to such transactions including the requirement for disclosure of supplementary information regarding the legal parent's prior financial operations.

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Analysis of expenses and deferred costs

Provide a breakdown of amounts presented in the financial statements for the following: deferred or expensed exploration, expensed research, deferred or expensed development, cost of sales, marketing expenses, general and administrative expenses, and any other material expenses reported in the income statement and any other material deferred costs presented in the balance sheet.



Handwritten signature/initials

... should separately present, at a minimum, each at comprises 20% or more of the total amount for a classification presented on the face of the financial other components of a material classification may ther under the heading "miscellaneous" or "other" breakdown; the total for "miscellaneous" should not ed 30% of the total for a material classification.

Breakdowns are required for the year-to-date period only. Breakdowns are not required for comparative periods.

Issuers in the development stage are reminded that Section 3(9)(b) of the BC Securities Commission's Rules requires a schedule or note to the financial statements containing an analysis of each of exploration, research, development and administration costs, whether expensed or deferred and if the issuer is a natural resource issuer, that analysis for each material property. Because the analysis required by Rule 3(9)(b) must be included in the financial statements, the information does not have to be repeated in Schedule B. Consistent with CICA Accounting Guidelines AcG-11, staff considers an issuer to be in the development stage when it is devoting substantially all of its efforts to establishing a new business and planned principal operations have not commenced. Further, in staff's view, the lack of significant revenues for the past two years normally indicates that an issuer is in the development stage.

2. Related party transactions

Provide disclosure of all related party transactions as specified in Section 3840 of the CICA Handbook.

3. Summary of securities issued and options granted during the period

Provide the following information for the year-to-date period:

- (a) summary of securities issued during the period, including date of issue, type of security (common shares, convertible debentures, etc.), type of issue (private placement, public offering, exercise of warrants, etc.) number, price, total proceeds, type of consideration (cash, property, etc.) and commission paid, and
- (b) summary of options granted during the period, including date, number, name of optionee for those options granted to insiders, generic description of other optionees (e.g. "employees"), exercise price and expiry date.

4. Summary of securities as at the end of the reporting period

Provide the following information as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements.

5. List the names of the directors and officers as at the date this report is signed and filed.

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

1. General Instructions

- (a) Management discussion and analysis provides management with the opportunity to discuss an issuer's business, current financial results, position and future prospects.
- (b) Focus the discussion on material information, including liquidity, capital resources, known trends, commitments, events, risks or uncertainties, that is reasonably expected to have a material effect on the issuer.
- (c) For an issuer with active ongoing operations the discussion should be substantive (e.g. generally two to four pages in length); for an issuer with limited operations the discussion may not be as extensive (e.g. one page).
- (d) The discussion must be factual, balanced and non-promotional.
- (e) Where the discussion relates to a mineral project, as defined in National Instrument 43-101 "Standards of Disclosure for Mineral Projects," the disclosure must comply with NI 43-101.

2. Description of Business

Provide a brief description of the issuer's business. Where an issuer is inactive and has no business, disclose these facts together with a description of any plans to reactivate and the business the issuer intends to pursue.

3. Discussion of Operations and Financial Condition

Provide a meaningful discussion and analysis of the issuer's operations for the current year-to-date period presented in the financial statements. Discuss the issuer's financial condition as at the date of the most recent balance sheet presented in the financial statements.

The following is a list of items that should be addressed in management's discussion and analysis of the issuer's operations and financial condition. This is not intended to be an exhaustive list of the relevant items.

- (a) expenditures included in the analysis of expenses and deferred costs required under Securities Rule 3(9)(b) and Schedule B;
- (b) acquisition or abandonment of resource properties material to the issuer including material terms of any acquisition or disposition;
- (c) acquisition or disposition of other material capital assets including material terms of the acquisition, or disposition;
- (d) material write-off or write-down of assets;
- (e) transactions with related parties, disclosed in Schedule B or the notes to the financial statements;
- (f) material contracts or commitments;
- (g) material variances between the issuer's financial results and information previously disclosed by the issuer, (for example if the issuer does not achieve revenue and profit estimates previously released, discuss this fact and the reasons for the variance);
- (h) material terms of any existing third party investor relations arrangements or contracts including:

- i. the name of the person;
- ii. the amount paid during the reporting period; and
- iii. the services provided during the reporting period;

- (i) legal proceedings;
- (j) contingent liabilities;
- (k) default under debt or other contractual obligations;
- (l) a breach of corporate, securities or other laws, or of an issuer's listing agreement with the Canadian Venture Exchange including the nature of the breach, potential ramifications and what is being done to remedy it;
- (m) regulatory approval requirements for a significant transaction including whether the issuer has obtained the required approval or has applied for the approval;
- (n) management changes; or
- (o) special resolutions passed by shareholders.

4. Subsequent Events

Discuss any significant events and transactions that occurred during the time from the date of the financial statements up to the date that this report is certified by the issuer.

5. Financings, Principal Purposes and Milestones

- (a) In a tabular format, compare any previously disclosed principal purposes from a financing to actual expenditures made during the reporting period.
- (b) Explain any material variances and the impact, if any, on the issuer's ability to achieve previously disclosed objectives and milestones.

6. Liquidity and Solvency

Discuss the issuer's working capital position and its ability to meet its ongoing obligations as they become due.

How to File Under National Instrument 13-101 – System for Electronic Document Analysis and Retrieval (SEDAR)

BC Form 51-901F Quarterly and Year End Reports are filed under Category of Filing: Continuous Disclosure and Filing Type: Interim Financial Statements or Annual Financial Statements. Schedule A (Financial Statements) is filed under Document Type: Interim Financial Statements or Annual Financial Statements. Schedule B (Supplementary Information) and Schedule C (Management Discussion) are filed under Document Type: BC Form 51-901F (previously Document Type Form 61(BC)).

Meeting the Form Requirements

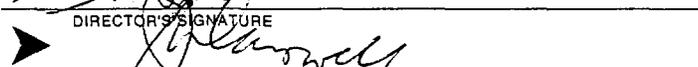
BC Form 51-901F consists of three parts: Instructions to schedules A, B and C, issuer details and a certificate. To comply with National Instrument 13-101 it is not necessary to reproduce the instructions that are set out in BC Form 51-901F. A cover page to the schedules titled BC Form 51-901F that includes the issuer details and certificate is all that is required to meet the BC Form 51-901F requirements. The form of certificate should be amended so as to refer to one or two of the three schedules required to complete the report.

ISSUER DETAILS

| | | | |
|---|--|--|---|
| NAME OF ISSUER KELSO TECHNOLOGIES INC. | | FOR QUARTER ENDED 01/11/30 | DATE OF REPORT YY / MM / DD 02/01/23 |
| ISSUER ADDRESS 801-1318 Homer Street | | | |
| CITY / PROVINCE / POSTAL CODE Vancouver, British Columbia | | ISSUER FAX NO. (604) 899-1144 | ISSUER TELEPHONE NO. (604) 899-1274 |
| CONTACT NAME Stephen Grossman | | CONTACT POSITION Director | |
| CONTACT EMAIL ADDRESS kelsotek@kelsotech.com | | CONTACT TELEPHONE NO. (604) 899-1274 | |
| WEB SITE ADDRESS www.kelsotech.com | | | |

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

| | | |
|---|--|--|
| DIRECTOR'S SIGNATURE  | PRINT FULL NAME Stephen Grossman | DATE SIGNED YY / MM / DD 02/01/24 |
| DIRECTOR'S SIGNATURE  | PRINT FULL NAME John Carswell | DATE SIGNED YY / MM / DD 02/01/24 |

KELSO TECHNOLOGIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2001
(unaudited - prepared by management)

Consolidated Balance Sheet
Consolidated Statement of Operations and Deficit
Consolidated Statement of Cash Flows
Notes to the Consolidated Financial Statements

KELSO TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET

November 30, 2001

(unaudited - prepared by management)

| | November 30, <u>2001</u> | August 31, <u>2001</u> |
|-----------------------------------|-----------------------------|---------------------------|
| A S S E T S | | |
| Current: | | |
| Cash | \$ 252,392 | \$ 6,732 |
| Goods and services tax receivable | <u>1,720</u> | <u>1,067</u> |
| | \$ 254,112 | \$ 7,799 |
| Capital assets | | |
| | <u>3,709</u> | <u>3,194</u> |
| | <u>\$ 257,821</u> | <u>\$ 10,993</u> |

L I A B I L I T I E S

| | | |
|--|------------------|-------------------|
| Current: | | |
| Accounts payable and accrued liabilities | \$ <u>26,144</u> | \$ <u>239,416</u> |

S H A R E H O L D E R S ' D E F I C I T

| | | |
|-------------------|--------------------|---------------------|
| Share capital: | | |
| Common shares | \$ 5,269,796 | \$ 4,710,485 |
| Preference shares | <u>130,500</u> | <u>130,500</u> |
| Deficit | | |
| | <u>(5,168,619)</u> | <u>(5,069,408)</u> |
| | <u>\$ 231,677</u> | <u>\$ (228,423)</u> |
| | <u>\$ 257,821</u> | <u>\$ 10,993</u> |

KELSO TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Three Months Ended November 30, 2001

(unaudited - prepared by management)

| | Three Months Ended November 30, <u>2001</u> | Three Months Ended November 30, <u>2000</u> |
|--------------------------------|--|--|
| Revenue | \$ <u> -</u> | \$ <u> -</u> |
| Expenses: | | |
| Accounting and legal | \$ 15,255 | \$ 23,439 |
| Advertising | 245 | 15,669 |
| Amortization | 1,008 | 270 |
| Automobile | 1,950 | 1,909 |
| Bank charges and interest | 493 | 344 |
| Consulting | 14,019 | - |
| License and fees | 3,284 | 1,286 |
| Management fees | 20,550 | 20,550 |
| Office | 1,235 | 8,779 |
| Rent | 2,528 | 2,528 |
| Telephone | 1,235 | 467 |
| Travel and promotion | 4,461 | 7,184 |
| | <u>\$ 66,263</u> | <u>\$ 82,425</u> |
| Loss before the undernoted | \$ (66,263) | \$ (82,425) |
| Interest income | 646 | 405 |
| Research and development costs | <u>(33,594)</u> | <u>(8,308)</u> |
| Net loss for the period | \$ (99,211) | \$ (90,328) |
| Deficit, beginning of period | <u>(5,069,408)</u> | <u>(4,818,356)</u> |
| Deficit, end of period | <u>\$ (5,168,619)</u> | <u>\$ (4,908,684)</u> |

KELSO TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

Three Months Ended November 30, 2001

(unaudited - prepared by management)

| | Three Months Ended November 30, <u>2001</u> | Three Months Ended November 30, <u>2000</u> |
|--|--|--|
| Cash flows from (used in) operating activities | | |
| Net loss for the period | \$ (99,211) | \$ (90,328) |
| Add: item not affecting cash | | |
| - amortization | <u>1,008</u> | <u>270</u> |
| | \$ (98,203) | \$ (90,058) |
| Changes in other non-cash working capital | | |
| Goods and Services Tax receivable | (653) | (1,573) |
| Accounts payable and accrued liabilities | <u>(213,272)</u> | <u>23,421</u> |
| | \$ (312,128) | \$ (68,210) |
| Cash flows used in investing activities | | |
| Purchase of capital assets | <u>\$ (1,523)</u> | <u>\$ (400)</u> |
| Cash flows from financing activities | | |
| Issuance of common shares | <u>\$ 559,311</u> | <u>\$ 69,350</u> |
| Increase in cash during the period | \$ 245,660 | \$ 740 |
| Cash, beginning of period | <u>6,732</u> | <u>35,166</u> |
| Cash, end of period | <u>\$ 252,392</u> | <u>\$ 35,906</u> |

KELSO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended November 30, 2001

(unaudited – prepared by management)

1. Basis of Operations

The accompanying financial information reflects the same accounting policies and methods of applications as the audited consolidated financial statements for the year ended August 31, 2001. The accompanying financial information does not include all disclosure required under generally accepted accounting principals because certain information included in the audited consolidated financial statement for the year ended August 31, 2001 has not been included in this report. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report.

KELSO TECHNOLOGIES INC.

QUARTERLY REPORT

SCHEDULE B

Three Months Ended November 30, 2001

1. No deferred costs were incurred during the period.

2. Related Party Transactions

Related parties are directors and officers, companies controlled by the directors and a company whose principal is an officer of the company.

The following summarizes the company's related party transactions for the year:

| | | |
|--------------------------------|----|--------|
| Legal | \$ | 5,600 |
| Management fees | \$ | 20,550 |
| Rent | \$ | 2,528 |
| Research and development costs | \$ | 32,583 |

These transactions are in the normal course of operations and are measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable are \$25,121 to related parties.

3. a) Summary of Securities Issued During the Period:

| <u>Date</u> | <u>Type of Security</u> | <u>Type of Issue</u> | <u>Number of Shares</u> | <u>Price</u> | <u>Total Proceeds</u> | <u>Type of Consideration</u> |
|-------------|-------------------------|----------------------|-------------------------|--------------|-----------------------|------------------------------|
| | Common | Private Placement | 5,483,102 | \$0.10 | \$ 548,310 | Cash |
| | Common | Options Exercised | 100,000 | -\$0.11 | \$ 11,000 | Cash |

b) Stock options granted during the period:

| <u>Date</u> | <u>Number of Shares</u> | <u>Name</u> | <u>Exercise Price</u> | <u>Expiry</u> |
|-------------|-------------------------|------------------|-----------------------|---------------|
| 01/10/11 | 620,299 | James Williams | \$0.10 | 06/10/11 |
| 01/11/22 | 49,029 | John Carswell | \$0.10 | 06/11/22 |
| 01/11/22 | 98,257 | Stephen Grossman | \$0.10 | 06/11/22 |

4. a) Share Capital:

Authorized:

100,000,000 Class "A" preference shares, without par value, non-cumulative, of which 5,000,000 are designated Class "A" convertible, voting preference, Series 1

100,000,000 common shares without par value

b) Issued and Fully Paid:

27,829,423 common shares

130,500 Class "A" convertible, voting preference shares, Series 1

c) Summary of Options, Warrants and Convertible Securities:

i) Stock Options Outstanding at November 30, 2001

| <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-----------------------------|---------------------------|--------------------|
| 820,425 | \$0.11 | March 3, 2005 |
| 161,918 | \$0.11 | April 18, 2005 |
| 375,000 | \$0.14 | April 18, 2005 |
| 695,300 | \$0.11 | October 6, 2005 |
| 620,299 | \$0.10 | October 11, 2006 |
| 147,286 | \$0.10 | November 22, 2006 |

ii) Warrants Outstanding at November 30, 2001

| <u>Number of Shares</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|-----------------------------|---------------------------|--------------------|
| 391,215 | \$0.27 | June 22, 2002 |
| 65,000 | \$0.17 | October 30, 2002 |
| 60,000 | \$0.10 | September 18, 2003 |
| 1,289,770 | \$0.10 | September 20, 2003 |
| 721,200 | \$0.10 | September 21, 2003 |
| 127,650 | \$0.10 | September 24, 2003 |
| 155,300 | \$0.10 | October 1, 2003 |
| 1,838,620 | \$0.10 | October 2, 2003 |
| 1,228,442 | \$0.10 | October 3, 2003 |
| 62,120 | \$0.10 | October 5, 2003 |

d) Escrowed Shares

750,000 common shares issued at \$0.01 per share are held in escrow.

5. List of Directors

John Carswell
Stephen Louis Grossman
Bryce Stewart

List of Directors

John Carswell – Vice President, Corporate Communications
Stephen L. Grossman – President and CEO
D. Brian Hay – Vice President, Corporate Affairs and Development
Barry LaCroix – Vice President of Engineering
Harley D. Sinclair – Secretary
James W. Williams, 3rd – Vice President, Valve Development

KELSO TECHNOLOGIES INC.

MANAGEMENT DISCUSSION

SCHEDULE C

Three Months Ended November 30, 2001

Description of Business

The Company is in the process of developing a new type of pressure relief valve that is initially designed to be installed on DOT 111A 100W 75 pound general purpose railroad tank cars. The patented Kelso JS75 SRV pressure relief valve is an external valve which is designed to have specific advantages over the current class of internal pressure relief valves.

The JS75 SRV falls under the regulations of the Association of American Railroads ("AAR"). The AAR is the self governing body for the railroad industry in North America and Mexico, which requires certain products including the JS75 SRV to be installed on railroad tank cars and satisfactorily complete a service trial prior to commercialization.

In order to enter the service trial, the Company must install a JS75 SRV on thirty tank cars. The Company announced on November 16, 2001 it has now begun the service trial.

Discussion of Operations, Financial Condition and Milestones

Liquidity and Solvency

During the three months ended November 30, 2001, the company earned no revenues and incurred \$66,263 in general and administrative expenses. The major expenditures during the period were as follows:

| | | |
|----------------------|----|--------|
| Accounting and legal | \$ | 15,255 |
| Management fees | \$ | 20,550 |
| Consulting | \$ | 14,019 |

Audit and accounting fees for the period totalled \$2,525. Legal fees of \$5,600 are due to the law firm of Godhino Sinclair (one of the principals of which Harley Sinclair, the Company's Corporate Secretary) for general legal matters. The remaining \$7,130 in legal fees related to patent work on the JS75 SRV and other general legal matters.

During the period, \$20,550 was accrued as management fees to Stephen L. Grossman (President and CEO of the company).

Subsequent Events

Subsequent to November 30, 2001, the Company has installed fifteen of the Kelso JS75 SRV valves on actual railroad tank cars that are now traveling throughout North America. Installation is taking place in two locations, 15 valves were installed in Canada while the remaining 15 valves will be installed in the United States. A major Lessee of railroad tank cars is supplying the required 30 cars for the AAR Service Trial. It is anticipated the remaining valves shall be installed by the end of February 2002.

As at the date hereof, Mr. Grossman has accrued unpaid management fees in the amount of \$20,550.

If you have any questions, please feel free to contact Kelso at 1-604-899-1274.

Kelso thanks you...

A handwritten signature in black ink, appearing to read "Stephen L. Grossman", with a long horizontal flourish extending to the right.

Stephen L. Grossman, President and C.E.O.
Kelso Technologies Inc.