Cielo

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## QUARTERLY HIGHLIGHTS

## FOR THE  THREE MONTHS ENED JULY 31, 2018

## Notice to Reader

The following is management's discussion and analysis – quarterly highlights ("MD&A") in respect of the results of operations and financial position of CIELO WASTE SOLUTIONS CORP. (the "Company" or "Cielo") for the three months ended July 31, 2018 and 2018. The financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS"), and presented in Canadian dollars, which is the Company's functional currency. Additional information, including the above mentioned financial statements, which contain extensive disclosure of the history and properties of the Company are available on SEDAR and may be accessed at www.sedar.com.

This MD&A has been prepared in compliance with the requirements of section 2.2.1 of Form 51- 102F1, in accordance with National Instrument 51- 102 – Continuous Disclosure Obligations. It should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended January 31, 2018, together with the notes thereto, and the accompanying unaudited interim condensed consolidated financial statements and related notes for the three months ended April 30, 2018. It should be read in conjunction with the Company's interim financial statements for the same period ("July 31, 2018 Interim Financial Statements") and the audited financial statements for the most recent year ended April 30, 2018.

## Forward Looking Statements

The information presented in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, "forward–looking statements" or "forward-looking information" (collectively "forward-looking statements") as those terms are used in securities laws applicable in Canada.

These forward-looking statements also include, but are not limited to, factors that may affect our ability to achieve our objectives and to successfully develop and commercialize our renewable diesel refineries.

Such forward–looking statements, including but not limited to those with respect to the price of renewable fuels, the timing and amount of estimated future economic and viability of refining projects, capital expenditures, costs and timing of refining projects, permitting timelines, title to refining projects, the timing and possible outcome of pending refining projects and other factors and events described in this MD&A involve 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, performance or achievements expressed or implied by such forward–looking statements.

The reader should verify all claims and do their own due diligence before investing in any securities mentioned or implied in this document. Investing in securities is speculative and carries a high degree of risk.

These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Forward-looking statements are based on management's current plans, estimates, projections, beliefs, and opinions and we do not undertake any obligation to update forward-looking statements should the assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by law.

## Date of Report

The information in this report is presented as of September 28, 2018.

## ABOUT CIELO

Cielo was incorporated on February 2, 2011 as a wholly-owned subsidiary of Arris Holdings Inc. ("AHI") for the purpose of mineral property acquisition and development. Following a spin-out transaction, the Company became a reporting issuer on June 9, 2011 and its common shares commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "CMC" on August 3, 2011. A change of name from Cielo Gold Corp. to Cielo Waste Solutions Corp. on August 23, 2018 was followed on April 15, 2014 by a change of fundamental business from mining exploration to renewable diesel refining.

The registered and records office of the Company is located at #101 – 1500 Howe Street, Vancouver, BC V6Z 2N1 and its operations office is located at Bridgeview Place II, Suite 115, 5114-58 St., Red Deer, AB T4N 2L8.

## CORPORATE OVERVIEW AND OVERALL PERFORMANCE

Since the Company's fundamental change of business to renewable diesel refining, the Board of Directors and management of the Company has been working toward commercializing its proprietary technology to allow it to enter the fast and growing waste industry by refining landfill and municipal and commercial waste into a high quality renewable diesel. Cielo has identified opportunities throughout the world and is poised to capitalize on these and local opportunities. While Cielo has generally not been taking purchase orders while focusing on the construction of its first commercial refinery, the Company has continued to communicate with those who had previously submitted purchase orders or expressed interest to facilitate revenues upon the completion of the commissioning phase.

Cielo has planned two phases (Phases I and II) for reaching optimal production output in creating a blueprint for its refineries. Cielo's initial plan for Phase I was to build a refinery targeting a nominal production rate of 356 litres per hour and, for Phase II, Cielo had considered building a second refinery, targeting a production rate of 1824 litres per hour. During the year ended April 30, 2018, Cielo focused on the construction if its first commercial refinery and, following the end of the year ended April 30, 2018, Cielo completed construction for Phase I and began the Phase I commissioning stage. As Cielo progresses through this Phase I commissioning stage, modifications to both design and construction intended to improve the processes continue to be made. Continued improvements have increased targeted outputs from 356 litres per hour to between 500 and 1,000 litres per hour. With respect to Phase II, management has determined that it would be more efficient to upgrade the current refinery to a greater capacity, targeting outputs of between 1,800 and 2,000 litres per hour, such that all Cielo refineries would produce at least at this rate at a minimum.

The Company kicked off the start-up and commissioning of Phase I of its first commercial refinery in the three month period ended July 31, 2018. Highlights include:

1.) On June 6, 2018 the Company announced the implementation of an early warrant exercise incentive program (the "Program") designed to encourage the early exercise of up to 16,366,180 unlisted warrants. On July 4, the Company announced that it had closed the Program. Cielo received gross proceeds pf $2,032,500 as a result of the exercise of 10,162,500 warrants. Each participant is entitled to receive $.0875 per warrant exercised as a fixed rate royalty which will be paid out prorate over an estimated period of two years or less, at the discretion of management. Once production begins, the company will allocate 10% of gross sales to the payment of the royalties. The use of proceeds of the Program were allocated to the Phase I commissioning stage.

2.) On June 11, 2018, the Company announced that it had received its permit from the Ministry of Environment and Parks (Alberta) (the "Ministry") pursuant to the Environmental Protection and Enhancement Act, which was required in order to begin operations at its first commercial refinery in Aldersyde, AB.

3.) On June 29, 2018, the Company announced that, as anticipated in previous news releases, the Company had initiated the start-up and commissioning of its first commercial refinery in Aldersyde, AB, which signifies the transitioning of the refinery from the construction stage to the commercial operation stage.

For further details of the terms and conditions of any above-referenced agreements or announcements, please review the Company's filings on SEDAR.

## RESULTS OF OPERATIONS

### Three Months Ended July 31, 2018 ("July 31, 2018 Interim Financial Statements")

The loss for the three months ended July 31, 2018 ($719,846), compared to 2017 ($259,900) was mainly a result of the increased activity related to the Phase I start-up and commissioning of the Company's first commercial refinery, which required the engagement of additional personnel as well as the securing of additional financing. In particular, the increase in loss was the combined result of the following operating expenditures: $34,931 for consulting fees (2017 - $24,00), $35,865 for office administration expenses (2017 - $25,991), $134,112 for interest and accretion expense (2017-$98,755), $73,150 for professional fees (2017 - $12,316), $160,738 in management fees (2017-$Nil), $4,341, for trust and filing fees (2017 - $4,811), $42,320 of amortization on property, plant and equipment (2017-$43,014), loss on settlement of debt of $78,431 (2017-$33,619), and salaries and benefits of $112,694 (2017-$6,412).

Revenue for the three months ended July 31, 2018 was $NIL, compared to $NIL for the three months ended July 31, 2018, as the Company has not yet begun earning revenues from production.

On July 31, 2018, the Company's main assets and liabilities were:

Cash - $114,946 (2017 - $45,908);
Prepaid expenses - $127,459 (2017 - $16,598);
Inventory-$7,813 (2017-$Nil)
Property plant and equipment -$6,986,262 (2017-$3,107,839)
Accounts payable and accrued liabilities - $694,857 (2017 - $385,868);
Due to Shareholder - $484,790 (2017 $493,817)
Short-term loans payable -$20,902 (2017 - $106,189)
Long-term loans payable, including convertible debts -$3,191,585 (2017-$2,331,007)
Royalty Payable-$669,537(2017-$Nil)
Due to Affiliated companies -$32,075 (2017 -$254,257)

## QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information. It has been derived from the audited financial statements and the unaudited interim financial statements of Cielo. This summary should be read in conjunction with audited financial statements and unaudited interim financial statements of Cielo as contained in the public record for the relevant periods.

| Quarterly Financial Information | 31-Jul 2018 | 30-Apr 2018 | 31-Jan 2018 | 31-Oct 2017 | 31-Jul 2017 | 30-Apr 2017 | 31-Jan 2017 | 31-Oct 2016 | 31-Jul 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Operating data:** | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Total revenue | NIL | NIL | NIL | NIL | NIL | NIL | NIL | NIL | NIL |
| Operating Expenses | 641,415 | 338,248 | 5,026,990 | 670,147 | 226,281 | 224,235 | 62,137 | 38,317 | 123,961 |
| Net Earnings (loss) | (719,846) | (338,462) | (5,015,078) | (879,487) | (259,900) | (535,087) | (62,137) | (38,317) | (123,961) |
| **Balance sheet data:** | | | | | | | | | |
| Total assets | 7,356,269 | 5,472,723 | 4,449,278 | 3,940,494 | 3,174,832 | 3,192,667 | 1,079,725 | 759,209 | 18,958 |
| Total current liabilities | 1,956,282 | 1,734,108 | 1,137,352 | 1,579,072 | 1,568,829 | 2,029,928 | 2,396,706 | 2,331,838 | 1,496,661 |

**Explanation of Quarterly Variances.**

The loss of ($719,846) for the three-month period ended July 31, 2018, compared to the loss for the three-month period ended July 31, 2017 ($259,900) consisted of $160,738 of management fees (2017-Nil), $112,694 of salaries and benefits (2017-$6,412), $134,112 of interest and accretion expenses (2017-$98,755), $35,865 of office and administrative expenses (2017-$25,991), $42,320 of amortization of property plant and equipment expenses (2017-$43,017), $73,150 of professional fees (2017-$12,316), and $72,537 of other expenses (2017-$51,575), including advertising, amortization on deferred finance charges, bad debts, bank charges, agent fees and travel.

Revenue for the three months ended July 31, 2018 was $NIL, compared to $NIL for the 3 months ended July 31, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2018, the Company had $114,946 cash, and working capital deficit of $(1,586,276) The Company is not subject to external working capital requirements.

During the three months ended July 31, 2018, the Company used $,87,986 in operating activities mainly for professional and consulting expenses related to engineering work and preparing for production and the Company also received $1,966,738 inflow from its financing activities mainly through the proceeds of the early warrant exercise program("Program") (see "Financial Transactions" for more detail).

## OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## CONTINGENCIES / LEGAL PROCEEDINGS

The Company does not have any legal proceedings.

## FINANCIAL TRANSACTIONS

The following financial transactions occurred in the three-month period ending July 31, 2018:

A. On June 6, 2018, the Company announced the implementation of an early warrant exercise incentive program (the "Program") designed to encourage the early exercise of up to 16,366,180 unlisted warrants. On July 4, 2018, the Company announced that it had closed the Program. Cielo received gross proceeds pf $2,032,500 as a result of the exercise of 10,162,500 warrants. Each participant is entitled to receive $.0875 per warrant exercised as a fixed rate royalty which will be paid out prorate over an

   estimated period of two years or less, at the discretion of management. Once production begins, the company will allocate 10% of gross sales to the payment of the royalties.

B. On July 4, 2018, the Company announced that certain trade creditors elected to convert their trade debt in an aggregate amount of $313,725 into 1,960,871 common shares at a price of $0.16 per share.

C. On July 17, 2018, 600,000 unexercised warrants issued on July 17, 2017 pursuant to a private placement offering of units, each unit consisting of one common shares and one half of one share purchase warrant, expired.

The net proceeds of all of the financial transactions above were used as intended and disclosed, without variance. All net funds were used to pay professional fees (including legal, accounting, engineering, research and administration).

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties have been recorded at their exchange amounts, being the amounts agreed to and by the related parties.

Accounts payable and accrued liabilities balances at July 31, 2018 outstanding to officers and directors of the Company in the amount of $Nil (2017 - $Nil).

Management compensation for the officers and directors during the years are disclosed as below:

**3 months ended July 31, 2018**

| | | Consulting fees Paid | Gross Salaries Paid | Stock Options Shares Based Compensation | RSU Shares Based Compensation | Total |
|---|---|---|---|---|---|---|
| **Don Allan** | **CEO & Director** | $ - | $ 87,231 | $ - | $ 87,675 | $ 174,906 |
| **Shannon Wyzykoski** | **CFO** | $ 51,782 | $ - | $ - | $ - | $ 51,782 |
| **Micheal Yueug** | **Officer- VP-Business Development and Capital Markets** | $ - | $ 32,308 | $ - | $ 65,756 | $ 98,064 |
| | | $ 51,782 | $ 119,539 | $ - | $ 153,431 | $ 324,752 |

**3 months ended July 31, 2017**

| | | Consulting fees Paid | Gross Salaries Paid | Stock Options Shares Based Compensation | RSU Shares Based Compensation | Total |
|---|---|---|---|---|---|---|
| **Don Allan** | **CEO & Director** | $ - | $ - | $ - | $ - | $ - |
| **Shannon Wyzykoski** | **CFO** | $ 3,300 | $ - | $ - | $ - | $ 3,300 |
| **Micheal Yueug** | **Officer- VP- Business Development and Capital Markets** | $ - | $ - | $ - | $ - | $ - |
| | | $ 3,300 | $ - | $ - | $ - | $ 3,300 |

Office expense of $1,168, (2017 - $1,059), salaries and benefits of $9,451 (2017 - $6,412), rent expense of $2,730 (2017-$7,500) and telephone expense of $187 (2017 - $1,076) were charged back to 1888711 Alberta Inc., a company related by officers and directors (i.e. Don Allan).

Accounts payable and accrued liabilities balances at July 31, 2018 outstanding to a company owned by the CFO Company in the amount of $17,469 (2018 - $nil).

Further details are available in the Note 8, Note 11, Note 12 and Note 13 to the July 31, 2018 Interim Financial Statements.

## OUSTANDING SHARE DATA

As at July 31, 2018, the Company had 152,315,564 common shares, 31,015,436 warrants ("Warrants"), 656,000 finder/broker warrants ("Finder/Broker Warrants"), 10,240,000 stock options ("Options") and 4,750,000 Restricted Share Units ("RSUs") issued and outstanding.

As of the date of this MD&A, the Company has 156,923,525 common shares, 27,730,091 share purchase warrants (including 224,000 finder's warrants), 10,240,000 stock options and 4,750,000 RSUs issued and outstanding.

The share purchase warrants are exercisable at $0.20 per share subject to decrease in the case of BJK Holdings Inc. in the event of dilutive events and expire on various dates between August 31, 2018 and November 2, 2022.

The finder warrants are exercisable at $0.10 per share and expire on either August 31, 2018 or March 31, 2019. The options are exercisable for a period of three years from the date of grant and vested immediately upon grant. 5,500,000 of the options are exercisable at $0.10 per share and 4,740,000 of the options are exercisable at $0.25 per share.

The RSUs vest at various times over a period of three years or less from the date of grant up to January 12, 2021.

## CRITICAL ACCOUNTING ESTIMATES

This item does not apply as the Company is a venture issuer.

## CHANGE IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Details are available in the April 30, 2018 notice to reader financial statements, which are available at www.sedar.com.

## FINANCIAL INSTRUMENTS

Refer to Note 15 to the Company's financial statements for the year ended April 30, 2018.

## DIRECTORS AND OFFICERS

| | |
|---|---|
| Don Allan | Director, CEO, President |
| Robin Ray | Director |
| Doug MacKenzie | Director |
| Chris Dovbniak | Director |
| Mel Angeltvedt | Director |
| Shannon Wyzykoski | CFO |
| Stuart McCormick | Vice President, Compliance and Regulatory Affairs |
| Michael Yeung | Vice President, Business Development and Capital Markets |

## SUBSEQUENT EVENTS

On August 3, 2018 the Company announced that it has received $289,000 form the exercise of 1,461,500 warrants at an exercise price of $.20. On the same date, certain contractors elected to convert $100,246 of trade payables into 477,363 shares at a price of $0.21 per share.

On August 16, 2018, the Company issued 50,000 shares as a result of the exercise of 50,000 warrants at a price of $0.20 per warrant.

On August 31, 2018, the Company issued 608,000 shares as a result of the exercise of 200,000 subscriber warrants at a price of $0.20 per warrant and 408,000 finder warrants at an exercise price of $0.10 per warrant.

On September 13, 2018, the Company issued 900,000 shares as a result of the exercise of 900,000 warrants at an exercise price of $0.20, including the exercise of 650,000 warrants by insiders of the Company.

On the same date, certain contractors elected to convert $45,783.60 of payables into 228,918 shares at a price of $0.20 per share.

On September 21, 2018, the Company issued 941,180 shares as a result of the exercise of 941,180 warrants at an exercise price of $0.20.

## ADDITIONAL INFORMATION

Additional information regarding the Company may be found on SEDAR, www.sedar.com.