CIELO

Window to a Cleaner World™

CIELO WASTE SOLUTIONS CORP.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended July 31, 2021 and 2020

TO THE SHAREHOLDERS OF CIELO WASTE SOLUTIONS CORP.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), the Company discloses the unaudited condensed consolidated interim financial statements for the period ended July 31, 2021 were prepared by management and were not reviewed by Cielo's independent auditor.

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Financial Position

(In Canadian Dollars)	Note	July 31, 2021	April 30, 2021
Assets			
Current Assets			
Cash		14,105,580	17,176,212
Accounts receivable		717,660	530,460
Prepaid expenses		1,094,122	376,500
Inventory		543,975	342,225
		16,461,337	18,425,397
Non-current Assets			
Property, plant and equipment	5	29,714,682	26,623,622
Right-of-use assets		173,371	143,236
		29,888,053	26,766,858
Total Assets		**46,349,390**	**45,192,255**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		3,533,460	4,134,553
Other current liabilities	14	3,000,000	-
Deferred revenue and fees		3,750,000	3,750,000
Short-term warrant liability	8	-	10,169,563
Current portion of lease liability		100,095	59,307
Current portion of long-term debt	6	1,000,000	1,000,000
		11,383,555	19,113,423
Non-current Liabilities			
Royalty payable		889,219	889,219
Lease liability		109,170	120,757
Long term loans payable	6	60,000	60,000
Convertible debentures	7	-	503,585
		1,058,389	1,573,561
Total Liabilities		**12,441,944**	**20,686,984**
Shareholders’ Equity			
Share capital	8	92,074,928	79,672,607
Contributed surplus	8	3,317,146	3,278,486
Deficit		(61,484,628)	(58,445,822)
Total Shareholders’ Equity		**33,907,446**	**24,505,271**
Total Liabilities and Shareholders’ Equity		**46,349,390**	**45,192,255**

Going concern (note 3), Commitments (note 12), and Subsequent events (note 14)

The accompanying notes are an integral part of these financial statements.

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars)	Note	Three months ended July 31, 2021	2020 Restated (note 13)
Incidental sales		-	4,200
Cost of sales		-	(4,200)
Gross profit		**-**	**-**
Expenses and other income			
Financing costs	9	121,613	188,808
General and administrative		1,556,488	539,568
Research and development		1,682,280	143,060
Share based compensation	8	95,465	202,168
Depreciation and amortization		57,710	45,968
Fair value change of warrant	8	(492,378)	156,641
Other (income) expenses		17,628	-
Loss before income taxes		(3,038,806)	(1,276,213)
Income taxes		-	-
Net and comprehensive loss		**(3,038,806)**	**(1,276,213)**
Loss per share			
Basic		(0.005)	(0.005)
Diluted		(0.005)	(0.005)

Restatement of comparative periods (note 13)

The accompanying notes are an integral part of these financial statements.

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

(In Canadian Dollars)	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2020 (Restated – Note 13)	**20,941,031**	**3,725,559**	**(18,736,848)**	**5,929,742**
Shares issued on debt conversion	1,365,000	-	-	1,365,000
Shares issued on prepaid interest and warrants on convertible debenture issuance	416,480	397,188	-	813,668
Fair value of finders' warrants	-	56,334	-	56,334
RSU vesting	-	55,926	-	55,926
Share issuance costs	(1,995)	-	-	(1,995)
Share based compensation	-	146,242	-	146,242
Net loss for the period	-	-	(1,276,213)	(1,276,213)
Balance, July 31, 2021	**22,720,516**	**4,381,249**	**(20,013,061)**	**7,088,704**

Balance, April 30, 2021	**79,672,607**	**3,278,486**	**(58,445,822)**	**24,505,271**
Shares issued on debt conversion	709,500	-	-	709,500
Shares issued for warrant exercise	11,631,157	(35,009)	-	11,596,148
Shares issued for option exercise	66,296	(21,796)	-	44,500
Share based compensation	-	95,465	-	95,465
Share issuance costs	(4,632)	-	-	(4,632)
Net loss for the period	-	-	(3,038,806)	(3,038,806)
Balance, July 31, 2021	**92,074,928**	**3,317,146**	**(61,484,628)**	**33,907,446**

The accompanying notes are an integral part of these financial statements.

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Cash Flows

(In Canadian Dollars)		**Three months ended July 31, 2021**	2020 Restated (note 13)
Cash (used in) provided by operating activities:			
Net loss		(3,038,806)	(1,276,213)
Items not involving cash:			
Depreciation and amortization		57,710	45,968
Stock based compensation	8	95,465	202,168
Fair value change in warrants	8	(492,378)	156,641
Amortization of prepaid interest expense		116,441	-
Accrued interest and accretion expenses	9	5,173	6,798
Changes in non-cash working capital:			
GST and other receivables		(187,201)	(31,852)
Prepaid expenses		157,412	157,059
Inventory		(201,751)	3,237
Deferred revenues & deposits		-	1,000,000
Accounts payable and accrued liabilities		(387,026)	(1,081,975)
Cash used in operating activities		**(3,874,961)**	**(818,169)**
Cash (used in) provided by financing activities:			
Other liabilities	14	3,000,000	-
Lease liability		(25,205)	(13,884)
Convertible debentures issued for cash		-	1,600,142
Share issuance for warrant exercise	8	1,918,963	-
Shares issuance for option exercise	8	44,500	-
Share issuance costs	8	(4,632)	(1,994)
Financing costs		(17,500)	(116,499)
Shares issuance for debt		-	(93,567)
Cash provided by financing activities		**4,916,126**	**1,374,198**
Cash used in investing activities:			
Additions of property plant and equipment	5	(2,897,730)	(878,147)
Changes in non-cash working capital			
Prepaid expenses		(1,000,000)	-
Accounts payable and accrued liabilities		(214,067)	363,156
Cash provided by investing activities		**(4,111,797)**	**(514,991)**
Increase (decrease) in cash		**(3,070,632)**	**41,038**
Cash and cash equivalents, beginning of period		17,176,212	81,605
Cash and cash equivalents, end of period		**14,105,580**	**122,643**
Supplemental items:			
Cash interest paid		17,500	350,959

Restatement of comparative periods (note 13)

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY

Cielo Waste Solutions Corp. ("Cielo" or the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011. Cielo is a publicly traded company with its shares listed to trade on the TSX Venture Exchange ("TSXV") under the symbol "CMC" in June 2021, as well as on the OTC Venture Market ("OTCQB"), under the symbol "CWSFF". The registered office of the Company is located at 610 – 475 West Georgia Street, Vancouver, BC V6B 4M9. The principal office of the Company is located at Suite #114, 5115 – 58th Street, Red Deer, AB, T4N 2L8.

Pursuant to a license agreement entered into between Cielo and 1888711 Alberta Inc. ("1888 Inc."), a company related by a common officer and director of Cielo, dated June 14, 2016, as amended and restated on November 1, 2017, Cielo holds an exclusive global license to complete the development and commercialization of the renewable diesel technology on which its refineries are and will be based (the "License Agreement"). The technology, which is patented in Canada and the United States, uses landfill waste, tires, plastics, wood shavings and paper products to produce renewable kerosene (jet and marine fuels), highway diesel and naphtha through a catalytic thermal depolymerization process. Cielo retains the exclusive right to construct and commercialize the refineries using the technology and has agreed to pay royalties and commissions to 1888 Inc. from the commercialization of the technology.

On July 29, the company incorporated a new subsidiary, Cielo Fort Saskatchewan Corp. to facilitate the acquisition of land and hold the assets for the facility in Fort Saskatchewan, Alberta (note 14). Subsequent to July 29, 2021, the financial statements include the accounts of the Company and its wholly-owned subsidiary.

2. STATEMENT OF COMPLIANCE AND BASIS ACCOUNTING

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Company in its annual financial statements for the year ended April 30, 2021. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2021.

Certain amounts presented in the comparative period have been reclassified to conform with the current period presentation.

These unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on September 28, 2021.

3. GOING CONCERN

The Company has not yet generated revenue from its planned commercial operations and has accumulated losses of $61,484,628 as at July 31, 2021 and generated a loss of $3,038,806 for the three months ended July 31, 2021. While there is a working capital surplus of $5,077,782 at July 31, 2021, the Company will require additional capital to fund costs relating to research, development, and other corporate activities over the next year and beyond. The Company will continue to explore alternatives to generate additional financing, which may include raising additional equity and debt or entering into strategic partnerships; however, there is no assurance that these initiatives will be successful.

The Company has not reached planned commercial operations and its ability to continue as a going concern is dependent on its ability to generate revenue and positive cash flow from operating activities, and its ability to obtain additional financing to fund the cost of research, development, and other corporate activities. These matters create material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

(In Canadian dollars)

These unaudited condensed consolidated interim financial statements have been prepared on the basis of generally accepted accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they become due. These unaudited condensed consolidated interim financial statements do not reflect adjustments that might be necessary should the Company be unable to continue as a going concern. If the going concern assumption were not appropriate, adjustments might be necessary to the amounts and classifications of the Company's assets and liabilities and the reported expenses. These adjustments could be material.

4. SIGNIFICANT ACCOUNTING POLICIES AND USE OF JUDGEMENTS AND ESTIMATES

Except as described in note 13, the significant accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements have been applied consistently for all periods presented. The policies are unchanged from the policies disclosed in the notes to the financial statements for the year ended April 30, 2021. The use of judgments and estimates in the preparation of these unaudited condensed consolidated interim financial statements have been applied consistently for all periods presented and are unchanged from the judgments and estimates disclosed in the notes to the consolidated financial statements for the year ended April 30, 2021.

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Construction in Progress	Land	Building	Equipment	Computers	Total
Balance, April 30, 2020	15,979,307	755,841	931,499	1,372,207	68,269	19,107,123
Additions	8,146,222	-	-	38,065	23,142	8,207,429
Balance, April 30, 2021	24,125,529	755,841	931,499	1,410,272	91,411	27,314,552
Additions	2,740,354	-	-	385,607	3,710	3,129,671
Balance, July 31, 2021	**26,865,883**	**755,841**	**931,499**	**1,795,879**	**95,121**	**30,444,223**
Accumulated Amortization						
Balance, April 30, 2020	-	-	107,730	399,542	34,163	541,435
Additions	-	-	32,951	97,743	18,801	149,495
Balance, April 30, 2021	-	-	140,681	497,285	52,964	690,930
Additions	-	-	7,946	25,950	4,715	38,611
Balance, July 31, 2021	**-**	**-**	**148,627**	**523,235**	**57,679**	**729,541**
Net Book Value						
Balance, April 30, 2021	24,125,529	755,841	790,818	912,987	38,447	26,623,622
Balance, July 31, 2021	**26,865,883**	**755,841**	**782,872**	**1,272,644**	**37,442**	**29,714,682**

During the three month period ended July 31, 2021 additions to Construction in Progress include capitalized borrowing costs of $231,941 (April 30, 2021 - $1,788,110).

(In Canadian dollars)

6. LONG-TERM DEBT

As at	**July 31, 2021**	April 30, 2021
Secured interest bearing loan, 7%, due April 30, 2022	1,000,000	1,000,000
CEBA loan	60,000	60,000
Total debt	1,060,000	1,060,000
Less: current portion of long-term loans payable	(1,000,000)	(1,000,000)
Long-term portion of loans payable	60,000	60,000

On April 30, 2020, the Company entered into a loan agreement with 1823741 Alberta Ltd., with a maturity date of April 30, 2022 (the “182 Loan”). The 182 Loan converted $1,000,000 of payables to an interest-only loan at an interest rate of 7% per annum. In August 2021, the Company made a payment of $1,003,575 to 1823741 Alberta Ltd., to repay the principal and interest amounts in full.

On April 27, 2020, the Company received $40,000 from the Government of Canada sponsoring Canada Emergency Business Account in the form of a line of credit. On December 15, 2020, the Company received an additional $20,000 from the expansion of the program (the “CEBA Loan”). The CEBA Loan is non-interest bearing until December 31, 2022. If $40,000 of the CEBA loan is repaid in full on or before December 31, 2022, the balance of $20,000 will be forgiven. If $40,000 is not repaid in full on or before December 31, 2022, any unpaid portion of the CEBA loan will be converted to a 3-year term loan at an interest rate of 5% per annum.

7. CONVERTIBLE DEBENTURES

The following table summarizes the changes to the outstanding principal amount of convertible debentures:

	Three months ended July 31, 2021	Year ended April 30, 2021
Opening balance	503,585	6,706,750
Debentures issued during the period	-	13,941,142
Debentures converted during the period	(503,585)	(19,859,880)
Closing balance	-	788,012
Deferred financing costs	-	(284,427)
Convertible debenture liability	-	503,585

During the year ended April 30, 2021, the Company issued a total of 3,941.1 convertible debenture units (the “C Convertible Debenture Units”) for gross proceeds of $3,941,142 (the “C Convertible Debenture Offering”). During the year ended April 30, 2020, the Company issued a total of 753.5 convertible debenture units for gross proceeds of $753,500. The C Convertible Debentures Units each consist of one $1,000 unsecured convertible debenture (the “C Debentures”) and 7,500 share purchase warrants. The C Debentures bear interest at a simple rate of 15% per annum, the initial three (3) years of interest prepaid (the “C Prepaid Interest”) on the date of issuance of the C Debentures (the “C Issue Date”) by the issuance of common shares (the “C Prepaid Interest Shares”) at a price of $0.07 per C Prepaid Interest Share. The principal of the C Debentures (the “C Principal”) together with all accrued interest exceeding the C Prepaid Interest (the “C Interest Balance”) will be repaid 48 months from the C Issue Date unless repaid earlier by the Company without penalty or converted by the holder(s) thereof any time after four months and a day following the Issue Date at a price of $0.05 for the Principal and $0.07 for the Interest Balance. As at April 30, 2021, $360,000 of C Debentures remained outstanding. For the three months ended July 31, 2021, the remaining $360,000 of C Debentures were converted in 7,200,000 common shares of the Company. As at July 31, 2021, no C Debentures remained outstanding.

(In Canadian dollars)

During the year-ended ended April 30, 2020, the Company issued 5,121.8 convertible debenture units (the “A Convertible Debenture Units”) for gross proceeds of $5,121,750 (the “A Convertible Debenture Offering”). The A Convertible Debentures Units each consist of one $1,000 unsecured convertible debenture (the “A Debentures”) and 500 share purchase warrants. The A Debentures bear interest at a simple rate of 15% per annum, the initial two (2) years of interest prepaid (the “A Prepaid Interest”) on the date of issuance of the A Debentures (the “A Issue Date”) by the issuance of common shares (the “A Prepaid Interest Shares”) at a price of $0.10 per A Prepaid Interest Share. The principal of the A Debentures (the “A Principal”) together with all accrued interest exceeding the A Prepaid Interest (the “A Interest Balance”) will be repaid 48 months from the A Issue Date unless repaid earlier by the Company without penalty or converted by the holder(s) thereof any time after four months and a day following the A Issue Date at a price of $0.06 for the A Principal and $0.10 for the A Interest Balance. As at April 30, 2021, $214,500 of A Debentures remained outstanding. For the three months ended July 31, 2021, the remaining $214,500 of A Debentures were converted in 3,575,000 common shares of the Company. As at July 31, 2021, no A Debentures remained outstanding.

Additionally, during the year ended April 30, 2020, the Company issued a total of 2,432.0 convertible debenture units (the “B Convertible Debenture Units”) for gross proceeds of $2,432,000 (the “B Convertible Debenture Offering”). The B Convertible Debentures Units each consist of one $1,000 unsecured convertible debenture (the “B Debentures”) and 500 share purchase warrants. The B Debentures bear interest at a simple rate of 15% per annum, the initial two (2) years of interest prepaid (the “B Prepaid Interest”, together with the A Prepaid Interest, collectively the “Prepaid Interest”) on the date of issuance of the B Debentures (the “B Issue Date”) by the issuance of common shares (the “B Prepaid Interest Shares”) at a price of $0.12 per B Prepaid Interest Share. The principal of the B Debentures (the “B Principal”) together with all accrued interest exceeding the B Prepaid Interest (the “B Interest Balance”) will be repaid 48 months from the B Issue Date unless repaid earlier by the Company without penalty or converted by the holder(s) thereof any time after four months and a day following the Issue Date at a price of $0.08 for the Principal and $0.12 for the Interest Balance. As at April 30, 2021, $135,000 B Debentures remained outstanding. For the three months ended July 31, 2021, the remaining $135,000 of B Debentures were converted in 1,687,500 common shares of the Company. As at July 31, 2021, no B Debentures remained outstanding.

8. SHARE CAPITAL

The aggregate number of Class A common shares and Class B preferred shares which are authorized and may be issued is unlimited. As at July 31, 2021, there is no Class B preferred shares issued or outstanding.

The number of common shares issued and outstanding:

	Three months ended July 31, 2021		Three months ended July 31, 2020	
Common Shares	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	611,682,938	79,672,607	244,044,047	20,941,031
Issued for debenture conversion	12,462,500	709,500	17,333,333	1,365,000
Issued for prepaid interest on convertible debenture	-	-	10,595,199	416,480
Issued for warrant exercise	20,589,474	11,631,157	-	-
Issued for option exercise	445,000	66,296	-	-
Share issuance cost	-	(4,632)	-	(1,995)
Balance, end of period	**645,179,912**	**92,074,928**	**271,972,579**	**22,720,516**

(In Canadian dollars)

Debenture conversions

During the three months ended July 31, 2021, the Company converted debentures of $709,500, into 12,462,500 common shares of the Company. The carrying value of the debentures were reclassified to equity on the conversion dates.

During the year ended April 30, 2021, the Company converted debentures and accrued interest of $19,938,392 and $276,865, respectively, into 180,711,237 common shares of the Company. The carrying value of the debentures and accrued interest were reclassified to equity on the conversion dates.

Warrants

Continuity of the Company's share purchase warrants is as follows:

	Number of Warrants	Weighted average exercise price	Reserve amount
Balance April 30, 2020	59,208,085	0.16	3,722,892
Issued in connection with Convertible debenture	32,678,565	0.07	1,349,168
Issued in connection with private placements	27,627,080	0.12	121,318
Issued in connection with BJK Adjustment	18,854,354	-	-
Issued in connection with prepaid fuel sale	3,750,000	0.14	1,185,678
Exercised	(117,786,925)	0.14	(5,158,369)
Balance April 30, 2021	24,331,159	0.10	1,220,687
Issued in connection with BJK Adjustment	8,315	0.09	-
Exercised	(20,589,474)	0.09	(35,009)
Balance July 31, 2021	3,750,000	0.14	1,185,678

In February 2021, the Company received total proceeds of $1,500,000 in connection with a prepaid sale of 900,000 litres of renewable diesel at $1.67 per litre. In connection with this transaction, the Company paid an officer of the buyer a finder's commission of 5% of the proceeds and 3,750,000 share purchase warrants entitling the holder to purchase one common share per warrant at an exercise price of $0.135 per share expiring 2 years from the date of issuance. The fair value of each warrant granted is estimated as of the grant date using the Black-Scholes option pricing model.

As at July 31, 2021, the Company had the following warrants outstanding:

Exercise Price	Number of Outstanding and Exercisable	Weighted Remaining life (Years)	Weighted average exercise price
0.135	3,750,000	1.57	0.135

The warrants issued in connection with the BJK Loan are recognized as a current liability in the statements of financial position with the unrealized gains/losses resulting from the changes in fair value each period recognized as a non-cash item in the statement of net and comprehensive loss. As these warrants are exercised, the fair value of the recorded warrant liability on the date of exercise is removed from the warrant liability account and recorded in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in warrant liability is recognized in profit or loss, as part of the change in fair value of warrant liability.

(In Canadian dollars)

Changes in the warrant liabilities are summarized below:

	Three months ended July 31, 2021	Year-ended April 30, 2021
Opening balance	10,169,563	147,681
Exercise of warrants	(10,169,563)	(18,518,554)
Change in fair value of warrant lability	-	28,540,436
Warrant liability, ending	-	10,169,563

Stock Options

The Company amended its stock option plan (the "Stock Option Plan") effective June 18, 2021, subject to the approval of the disinterested shareholders of the Company, to be obtained at the annual general and special meeting of the shareholders, to be held on October 21, 2021. The Stock Option Plan provides for a fixed maximum of 63,567,991 common shares to be reserved for issuance under the Stock Option Plan, being 10% of the issued and outstanding common shares of the Company as at the date the Stock Option Plan became effective, less 950,000 stock options that were granted under the Company's previous stock option plan (the "Predecessor Stock Option Plan"). Once the 950,000 existing stock options expire or are exercised, the Predecessor Stock Option Plan will be of no further effect. Under the Stock Option Plan, the Company may grant options to its directors, officers, employees, and consultants.

On June 5, 2020, 5,450,000 stock options were granted, vested immediately upon the date of grant, and are exercisable at $0.10 per share for a period of three years (subject to earlier termination). On March 29, 2021, 500,000 stock options were granted to a firm performing investor relations activities, such options vesting 25% quarterly, exercisable at $1.25 for a period of two years (subject to earlier termination).

Continuity of the Company's option is as follows:

	Number	**Weighted Average exercise Price**
Balance April 30, 2020	3,740,000	0.25
Issued	5,950,000	0.20
Canceled	(20,000)	0.25
Expired	(3,845,000)	0.25
Exercised	(4,430,000)	0.10
Balance April 30, 2021	1,395,000	0.51
Exercised	(445,000)	0.10
Balance July 31, 2021	950,000	0.48

The following table summarizes the options outstanding and exercisable at July 31, 2021:

Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining life(years)**	**Weighted Average Exercise Price**	**Number Exercisable**
$0.10	450,000	1.85	$0.10	450,000
$1.25	500,000	1.67	$1.25	250,000
	950,000	1.75	$0.48	700,000

(In Canadian dollars)

Share-based compensation

For the three months ended July 31,	**2021**	2020
Stock options	95,465	146,242
Restricted share units	-	55,926
Total share-based compensation	95,465	202,168

Per share amounts

Basic and diluted loss per share have been calculated based on the weighted average number of shares outstanding for the three month period ended July 31, 2021 of 637,195,471 (2020 – 260,638,794).

The effect of any potential exercise of warrants and stock options is excluded from the calculation of diluted loss per share for the three months ended July 31, 2021 and 2020 as the effect would be anti-dilutive.

9. FINANCING COSTS

For the three months ended July 31,	**2021**	2020
Amortization of deferred financing costs	218,870	249,427
Interest on long-term debt	129,511	510,077
Accretion of debentures	-	22,788
Accretion of lease liability	5,173	6,798
Capitalized interest	(231,941)	(600,282)
Total	**121,613**	**188,808**

10. RELATED PARTY TRANSACTIONS

1888711 Alberta Inc.

The president and Chief Executive Officer ("CEO") of 1888 Inc is the president and director of Cielo. For the three months ended July 31, 2021, and 2020, Cielo charged 1888 Inc total expenses of $6,955 and $17,231 respectively, in relation to 1888 Inc using Cielo's office space for business purpose, and other business expenses that Cielo paid on behalf of 1888 Inc. As at July 31, 2021, the amount receivable from 1888 Inc is $193,171 (April 30, 2021 - $186,216).

The royalty payable by Cielo to 1888 Inc under the License Agreement is equal to $0.05 on every liter produced worldwide arising from the commercialization of the licensed technology. Once a facility reaches 14 days of production, Cielo may terminate the royalty fee in respect of a facility and any future facilities by paying the greater of $2,000,000 and the sum of $1,200 per liter per hour of capacity for each existing facility. 1888 Inc is also entitled to certain facility fees, equal to, with respect to the 2nd through 11th operating facilities, $500 for every 1 liter per hour of capacity of each such facility, and $400 for every 1 liter per hour of capacity with respect to each facility of Cielo after the 11th facility. Once a facility reaches 14 days of production, Cielo may terminate facility fees for each existing and any future facilities by paying the greater of $2,000,000 and the sum of $1,200 per liter per hour of capacity with respect to each existing facility.

Cielo also has a right to repurchase the rights in the technology it had granted to 1888 Inc, as well as all intellectual property and any and all patents relating to the technology, at any time following the 14th day of operations of any commercial facilities based on production if it makes the payments set out above for the termination of the royalties and facility fees.

Renewable U

Cielo's Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations, are both directors and shareholders of Renewable U, a privately-owned Alberta corporation. The CEO, director and indirectly a shareholder of Renewable U, Ryan Jackson is also a director of Cielo.

The Company entered into nine (9) memorandums of understanding ("MOUs") in total with Renewable U and its affiliates to build and commission waste to fuel facilities, at no cost to Cielo other than internal costs, one each in Grand Prairie, Alberta, Calgary, Alberta, Medicine Hat, Alberta, Lethbridge, Alberta, Halifax, Nova Scotia, Winnipeg, Manitoba, Kamloops, British Columbia, Toronto, Ontario, and a location to be determined in the United States. The Company and Renewable U intend to amend the MOU for Lethbridge, Alberta to another location.

Pursuant to the MOUs, the Company will also be responsible for overseeing the planning, construction, commissioning, and operation of each facility and will receive a management fee for the planning and construction of each facility equal to 7% of the project costs for such facility subject to certain exclusions and will continue to receive management fees once operations begin based on industry standards. For the three months ended July 31, 2021, the Company charged Renewable U management fees of $44,967, and made a credit adjustment of $56,463 to the management fees related to the fourth quarter of fiscal 2021. The management fees were recorded as other expense (income) in the statements of net and comprehensive loss. As at July 31, 2021, the amount receivable from Renewable U is $35,809 (April 30, 2021 - $97,194).

Brand U Agency Inc. ("Brand U")

Cielo's Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations each owns 1/3 of the total outstanding shares of Brand U. On November 1, 2019, Cielo entered into a marketing service agreement with Brand U, whereby Brand U provides marketing service to Cielo, in exchange for a service fee.

In connection with the marketing service agreement, Brand U charged Cielo service fees of $66,537 and $47,943, respectively, for the three months ended July 31, 2021, and 2020. As at July 31, 2021, the amount payable to Brand U is $17,493 (April 30, 2021 - $21,644).

11. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. In determining the fair value measurement of the Company's financial instruments, the related inputs used in measuring fair value are prioritized according to the following hierarchy:
Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable
Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing

The fair value of the warrant liability is considered a level 3 valuation to the use of unobservable inputs (Note 8).

Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, including the development and monitoring of the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Management performs ongoing assessments so that all significant risks related to financial instruments are reviewed and addressed in light of changes to market conditions and the Company's operating activities.

(In Canadian dollars)

The Company is exposed to the following risks associated with its use of financial instruments:

- Liquidity risk
- Market risk
- Credit risk

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective in managing liquidity is to ensure, to the greatest extent possible, that it will have sufficient liquidity to meet its liabilities when due.

The future cash requirements of the Company are estimated by preparing a budget annually. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. Actual spending relative to budgeted expenditures is monitored regularly by management.

The Company's exposure to liquidity risk is dependent on its research and development activities and associated commitments and obligations, and the raising of capital. The Company relies on external financing to support its operations. To date, the research and development activities have been funded primarily through debt, convertible debentures, and the exercise of common share purchase warrants. Management constantly monitors capital markets. There are no assurances that funds will be available to the Company when required. As at July 31, 2021, the Company's cash is not subject to any external restrictions. The Company also continuously monitors actual and projected expenditures and cash flows.

The table below presents a maturity analysis of the Company's financial liabilities on the expected cash flows from April 30, 2021 to the contractual maturity date. The amounts are equivalent to the following contractual undiscounted cash flows.

	2022	2023	After 2023
Accounts payable and accrued liabilities	3,533,460	-	-
Royalty payable	889,219	-	-
Long-term debt	1,000,000	60,000	-
Lease liability	60,745	58,452	84,668
Total	5,483,424	118,452	84,668

As at July 31, 2021, the Company had cash balance of $14,105,580 and working capital of $5,077,782. Management is considering different alternatives to secure adequate financing to meet the Company's longer term cash requirement for commercializing its operations and developing new facilities. See note 3 for additional information.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's expenses or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures.

Interest Rate Risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company was not exposed to fluctuating market interest rates on its debt instruments.

(In Canadian dollars)

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on transactions that are denominated in a currency other than the functional currency. As at July 31, 2021, the Company had US dollar denominated accounts payable of $14,152 USD. The Company's exposure to currency risk is not significant.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and the receivable from 1888 Inc., which is a related party. The Company manages its exposure to credit loss by holding cash on deposit with major financial institutions.

As at July 31, 2021, the carrying amounts of the Company's cash, GST and other receivables approximate their fair value due to their short-term nature.

12. COMMITMENTS AND CONTINGENCIES

As at July 31, 2021, the Company is committed to expenditures under various contracts with service providers for general and administrative services. As at July 31, the Company had contractual obligations as follows:

	2022	2023	2024	Total
Lease obligations	60,745	58,452	84,668	203,865
General and administrative contracts	48,539	5,820	-	54,359
Other	92,308	39,230	-	131,538
Total contractual obligations	201,592	103,502	84,668	389,762

13. RESTATEMENT OF COMPARATIVE PERIOD FINANCIAL STATEMENTS

As disclosed in note 20 to the Company's audited financial statements for the year ended April 30, 2021, the Company identified two matters that resulted in restatement of the financial statements for the year ended April 30, 2020 and the opening balance sheet as at May 1, 2020. While the 2021 annual impact of those restatements were included in the audited financial statements for the year ended April 30, 2021, the discrete quarterly impact of those matters have been corrected in the comparative period financial statements presented herein for the three month period ended July 31, 2020. The restatement of the July 31, 2020 comparative period reflects the following changes:

a) In accordance with IFRS, the Company is required to capitalize borrowing costs on qualifying assets, which includes the amounts that the Company has incurred in relation to its construction in progress activities. During the period of commencing construction activities in 2017 through to July 31, 2020, the Company incurred borrowing costs but did not capitalize these costs as required under IFRS. To reflect the correct application of capitalizing borrowing costs in the three month period ended July 31, 2020 that was recognized in the annual financial statements for the year ended April 30, 2021, the comparative period financial statements have been restated.

b) During the year ended April 30, 2018, the Company completed a $3.5 million financing arrangement with BJK Holdings Ltd., which included $3.5 million of debt financing as well as the issuance of 25,000,000 share purchase warrants (the "BJK warrants"). At the time of recognizing these transactions in the April 30, 2018 audited financial statements, the Company initially recorded the face value of the debt component of the financing at $3.5 million and recorded the estimated fair value of the warrants of $3.3 million as a financing expense in the Statement of Net and Comprehensive Loss with an offsetting entry recorded in contributed surplus in the Statement of Changes in Shareholders' Equity. The number of warrants and the exercise price of the warrants from this transaction were subject to adjustments for any reorganizations or dilutive events during their term. In preparation of the April 30, 2021 financial statements, the Company determined that the warrant adjustment clause should have resulted in the accounting for the BJK warrants as derivative instruments since their initial recognition rather than as equity instruments in the original accounting. Derivative instruments are required to be recorded at fair value each reporting period, which should have resulted in a warrant liability revalued at each period end incorporating any adjustments to the number of BJK warrants outstanding and their exercise price. As part of the process of updating the cumulative and comparative period impacts of this error, the Company also adjusted the amounts initially recorded for the debt component of the financing and the fair value of the warrants due to errors identified in the initial valuation methodology.

(In Canadian dollars)

The restatement impact of the two errors described above on the comparative period financial statements have been summarized in the table below. In addition to the two errors, the restatements summarized below include a reclassification of the accelerated amortization of pre-paid interest expense of $188,808 required upon the early conversion of certain convertible debentures that had previously been recognized as “Loss (gain) on settlement of debt with shares” in the Statements of Net and Comprehensive Loss and has now been presented as part of “Financing costs”. This reclassification was recorded to conform with the current period presentation.

Financial Statement Caption	Amount previously reported for the three months ended July 31, 2020	Amount restated for the three months ended July 31, 2020	Change
Financing costs	543,861	188,808	(355,053)
Loss (gain) on settlement of debt with shares	188,808	-	(188,808)
Fair value change in warrants	-	156,641	156,641
Net loss and comprehensive loss	(1,663,433)	(1,276,213)	387,220
Loss per share	(0.006)	(0.005)	0.001

14. SUBSEQUENT EVENTS

Asset Purchase in Fort Saskatchewan, Alberta

In May 2021, the Company entered into an agreement to purchase 60 acres of land and an approximately 32,000 square feet industrial building in Fort Saskatchewan, Alberta for $13 million (the “Asset Purchase”). The land is for future development of a facility.

The Asset Purchase was completed in August 2021. The purchase price of $13 million was funded by cash on hand of $1 million and a $12 million loan (the “Loan”) from First Choice Financial (“FCF”) and KV Capital (“KV”) (the “Lenders”). The Loan includes an annual interest rate of 6% and is secured by charges against Cielo’s land and facilities in Fort Saskatchewan and Aldersyde, Alberta. The 12-month term is subject to automatic renewal at the end of the original term for further six-month terms in consideration for a renewal fee equal to 1.5% of the then outstanding balance, subject to the Lenders' rights to terminate the automatic renewal at their discretion. The Loan is subject to interest payments only and Cielo is entitled to repay the Loan at any time before maturity without penalty. The loan agreement includes a special covenant in relation to the Company’s market capitalization: (i) if the Company’s market capitalization is below $250 million but above $150 million, a $1 million loan repayment is required; (ii) if the Company’s market capitalization is below $150 million but above $100 million, an additional $1 million loan repayment is required; and (iii) if the market capitalization is below $100 million, an additional $1 million loan repayment is required.

In connection with the Loan, Cielo issued 12 million non-transferable share purchase warrants (the "Bonus Warrants") as inducement for the Loan. Each Bonus Warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.00 for a period of 36 months, however, if the Loan is repaid in whole or in part during its term, a pro rata number of the total Bonus Warrants will have their term reduced to the date that is 90 days from such repayment.

Share Issuance upon Exercise of Warrants

In September 2021, the Company issued 3,750,000 common shares upon the exercise of warrants at $0.135 per share.

Convertible Debenture Financing

In August 2021, the Company completed a non-brokered, convertible debenture financing, and received gross proceeds of $4,000,000 (the “Financing”). In connection with this financing, the company received $3,000,000 of cash in July 2021 prior to issuance of debenture certificates in August 2021. The $3,000,000 cash received is included in the cash balance and presented as other current liabilities in the Statement of Financial Position at July 31, 2021.

Pursuant to the Financing, the Company issued 4,000 non-interest-bearing, unsecured convertible debentures (the “Debentures”), each issued at $1,000 per Debenture, on a prospectus-exempt basis, the principal amount of the Debentures being convertible into common shares at $1.25 per share during the 12-month term of the August 2021 Debenture.

Following the issuance of the debentures, the full $4,000,000 of the principal amount was converted into 3,200,000 shares of the Company at the conversion price of $1.25 per common share. The Debentures and the common shares issued upon the conversion therefore are subject to a statutory 4-month hold period expiring on December 4, 2021.

The net proceeds will be used for engineering work for the facility to be built on land acquired by Cielo in Fort Saskatchewan, Alberta, or otherwise in the sole discretion of the Company. In connection with the Financing, Cielo paid transaction fees equal to $280,000 and a commission to a third party equal to $320,000.

Repayment of Promissory Note

In August 2021, the Company made a payment of $1,003,575 to 1823741 Alberta Ltd., to repay the principal and interest amounts owing to 1823741 Alberta Ltd. The principal of $1,000,000 was recorded as current portion of long-term debt in the unaudited condensed consolidated statement of financial position as at July 31, 2021.

Office Lease in Calgary, Alberta

In September 2021, the Company entered into an approximate 10,000 square foot office lease agreement in downtown Calgary. The term of the lease is 5 years commencing November 1, 2022 (the “Lease Term”). The annual lease payment includes base rent between $104,000 to $146,202, and additional rent of approximately $200,000 during the Lease Term.