CIELO WASTE SOLUTIONS CORP.

Management's Discussion and Analysis

For the three months ended July 31, 2021 and 2020

ADVISORIES

The following Management's Discussion and Analysis ("MD&A") of financial position and results of operations for Cielo Waste Solutions Corp. ("Cielo" or the "Company"), dated September 28, 2021, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the unaudited condensed consolidated interim financial statements and notes thereto for the three months ended July 31, 2021, and 2020, and the audited financial statements and notes thereto for the years ended April 30, 2021, and 2020. The audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). As described in Note 13 to the unaudited condensed consolidated interim financial statements for the three months ended July 31, 2021, and 2020, certain comparative period information presented for the three months ended July 31, 2020 was restated. As described in Note 20 to the audited financial statements for the years ended April 30, 2021, and 2020, certain comparative period information presented as at and for the year ended April 30, 2020 was restated. The comparative period information presented in this MD&A, including the summary of quarterly results, has also been restated to reflect the correction of these errors. See section entitled "Restatement of July 31, 2020 comparative period financial information" for additional information.

All amounts in the following MD&A are stated in Canadian Dollars unless otherwise stated. This MD&A was approved and authorized for issuance by the Board of Directors of the Company on September 28, 2021.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable Canadian securities laws. Forward-looking statements may relate to anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "plan", "target", "continue", "estimate", "expect", ""may", "will", "project", "should", "could", "believe", "predict", "potential", "scheduled", "estimates", "forecast", "projection". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts nor assurances of future performance but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Management's expectations, estimates and projections are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. All forward-looking statements in this MD&A are qualified by these cautionary statements.

This MD&A contains forward-looking statements that include, but are not limited to:

- business strategy, objectives and opportunities
- timing and size of operations, projects and anticipated production from facilities, including timing to develop a research and development facility in Fort Saskatchewan, Alberta and timing for engineering design work to begin for future facilities
- anticipated impacts of reactor and other facility enhancements
- timing for commissioning of desulfurization process, and
- demand fundamentals for fuels from waste and renewable fuels.

These forward-looking statements and other forward-looking information are based on management's opinions, estimates and assumptions in light of experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management currently believe are appropriate and reasonable in the circumstances. There can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the Company's ability to build and operate facilities; retain key personnel; maintain good relationships with joint arrangement partners, customers and suppliers; execute on expansion plans; continue investing in infrastructure to support growth; obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the risks factors described under the heading entitled ''Risk Factors'' in the Company's Management Discussion & Analysis for the years ended April 30, 2021, and 2020 ("Annual MD&A") available on SEDAR at www.sedar.com.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and the risks described in greater detail in ''Risk Factors'' in the Company's Annual MD&A available on SEDAR at www.sedar.com should be considered carefully by readers. These risk factors should not be construed as exhaustive. Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as the date they are otherwise stated to be made) and are subject to change after such date.

Except as specifically required under applicable securities laws in Canada, Cielo assumes no obligation to publicly update or revise any forward-looking information to reflect new information, events or circumstances that may arise after September 28, 2021. All forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

GOING CONCERN

The Company has not yet generated revenue from its planned commercial operations and has accumulated losses of $61.5 million as at July 31, 2021 and generated a loss of $3.0 million for the three months ended July 31, 2021. There is a working capital surplus of $5.1 million as at July 31, 2021; however, 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.

BUSINESS OVERVIEW

- **Formation:** Cielo 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".

- **Strategic Intent:** Cielo's strategic intent is to become one of Canada's leading waste to fuel companies using its environmentally friendly, economically sustainable technology. Cielo developed a process that can convert waste feedstocks, including plastics, rubber, organic material and wood derivative waste to fuel. Cielo's business model is to source feedstocks from a wide variety of potential suppliers and convert the feedstocks into fuels to be sold to a wide variety of potential purchasers. The Company plans to construct facilities that will convert low carbon waste feedstocks to energy fuels, such as diesel, kerosene, and naphtha. The diesel from Cielo's distillate could be used in diesel engines. Kerosene could be suitable for aviation or marine jet fuel, and naphtha could be used to assist in transporting heavy oil.

- **Aldersyde Facility:** Cielo's first facility located in Aldersyde, Alberta ("Aldersyde Facility") is currently converting wood derivative waste into a distillate product that consists of diesel, kerosene and naphtha. The proprietary technology Cielo has access to has been proven out at bench scale and at the Aldersyde Facility. The Company is continuing its research and development activities to achieve continuous production of its distillate on a commercial scale and is also conducting research and development activities to produce fuels that would meet the requirements for highway diesel and renewable fuel under applicable legislation in Canada such as the federal Renewable Fuels Regulation and the Alberta Renewable Fuels Standard Regulation. Cielo expects there will be demand for its waste to fuel products regardless of whether its fuel products meet renewable fuel specifications; therefore, Cielo's revenue stream is not dependent on producing renewable fuel. However, renewable fuel is expected to increase the profit margin of Cielo's waste to fuel products.

- **License Agreement:** 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 facilities 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 diesel, kerosene (jet and marine fuels), and naphtha through a catalytic thermal depolymerization process. Cielo retains the exclusive right to construct and commercialize facilities using the technology and has agreed to pay royalties and commissions to 1888 Inc from the commercialization of the technology.

- **Waste to Fuel Processes:** Cielo's process for converting waste to fuel is referred to as thermal catalytic depolymerization ("TCD"). Feedstock is processed in a liquid slurry, currently using used motor oil, and is then heated in a reactor until liquified. The process uses atmospheric pressure and heat to break down feedstock molecules in the reactor until liquified. Once liquified, it is blended with a catalyst. The catalyst causes an accelerated reaction forming a distillate. The distillate is placed through a distillation process where it is heated to temperatures that produce diesel, kerosene and naphtha. Any references to the Company's current production in liters per hour ("LPH") of distillate refers to such a distillate product that consists of diesel, kerosene and naphtha.

FIRST QUARTER FINANCIAL OVERVIEW

- Total assets increased by $1.2 million as at July 31, 2021 compared to April 30, 2021, due to the increase in property, plant and equipment related to the construction activities at Aldersyde Facility, and the increase of prepaid expenses, partially offset by the decrease in cash related to increased research and development and general and administrative expenditures.

- Total liabilities decreased by $8.2 million as at July 31, 2021 compared to April 30, 2021 due to the exercise of liability classified warrants and the conversion of convertible debentures, partially offset by the increase in accounts payable and accrued liabilities.

- Total non-current liabilities decreased by $0.5 million as at July 31, 2021 compared to April 30, 2021 due to the conversion of convertible debentures.

- Working capital increased by $5.8 million to $5.1 million surplus as at July 31, 2021, compared to $0.7 million deficiency as at April 30, 2021, primarily as a result of the decrease in short-term warrant liability upon the exercise of warrants, partially offset by the decrease in cash.

- The net loss for the three months ended July 31, 2021 was $3.0 million, an increase of $1.7 million compared to $1.3 million net loss for the same period in the prior year, mainly due to the following:

  - An increase of $1.0 million in general and administrative expenses mainly due to salaries and benefits for the additional employees hired to facilitate the growth of the Company, and professional fees incurred related to the listing of TSXV in June 2021.

  - An increase of $1.5 million in research and development expenses in the current quarter due to the increase in research and development activities conducted at Aldersyde Facility, and the shutdown of the Aldersyde Facility during the same period in prior year due to COVID-19 pandemic.

FIRST QUARTER OPERATIONAL OVERVIEW

Aldersyde Facility Update

The Aldersyde Facility has been producing in batch mode since opening in July 2019. The Company has reached 1000 LPH of distillate and has historically produced on a 24-hour continuous basis. Cielo has temporarily slowed production to improve the consistency of the product. The Company has internal engineers and external engineering consulting firms engaged in continuous optimization and improvements for the development of full-scale facilities.

During the three months ended July 31, 2021 and subsequent to July 31, 2021, while Cielo continuously reviewed all aspects of facility improvements, the Company focused on the primary components of the process, which include reactor design optimization, inlet feed system improvements, and a waste recovery management system. It is anticipated that reactor enhancements will optimize distillate production, achieve continuous production and improve distillate production and carrier fluid efficiencies. Continuous production would generally allow for feedstock to be added to the reactor with production of distillate occurring on a continuous basis without having to stop the input of feedstock to turn off the reactor to remove distillate. Cielo is also working on waste recovery modifications, with the aim of recovering additional carrier fluid and catalyst with an anticipated reduction in operating costs and improved efficiencies.

Desulfurization

In October 2020, Cielo signed a research agreement with the University of Calgary's Department of Chemical and Petroleum Engineering to complete the commercial design of the desulfurization technology required to reduce the sulfur content in its waste to fuel products. Cielo's goal is to meet the highway diesel specification of 15ppm or less of sulfur. Cielo received laboratory results that indicated the successful reduction of the sulfur content to approximately 5ppm, well below the required specifications.

In August 2021, the catalyst, intended for use in Cielo's desulfurization process, designed by the University of Calgary, and produced in China, was not complete when it arrived at the Aldersyde Facility. The catalyst required further work and was sent to Texas, US for activation and stabilization. The desulfurization unit is currently in the process of commissioning. Once the desulfurization process unit is on-line, the Company's primary objectives are to (i) confirm the ability to produce diesel with a sulfur content that complies with road diesel requirements; (ii) monitor, trend and measure system performance parameters for design purposes; and (iii) gain an understating of expected operating costs.

Cielo expects that its revenue stream will not be materially dependent on the desulfurization process. However, a product with a lower sulfur content is expected to increase the profit margin of Cielo's waste to fuel product.

OUTLOOK

The Aldersyde Facility is Cielo's first facility capable of converting waste to fuel. In addition to production of fuels for sales to third parties, Cielo intends to use its Aldersyde Facility for ongoing research and development activities. The second 100%-owned Cielo facility is planned to be built in Fort Saskatchewan, near Edmonton, Alberta. In addition to a full-scale facility, Cielo intends to build a research and development facility ("R&D facility") in Fort Saskatchewan, Alberta.

The Company is currently in the process of designing this R&D facility, which is a scaled-down version (60 LPH) of a full-scale 4,000 LPH facility. The purpose of this R&D facility is to achieve a high degree of detailed performance characteristics, feedstock yields, optimum carrier fluid design, rector design, catalyst experimentation and a detailed material balance for the system. This R&D facility is expected to give Cielo the flexibility to experiment with a greater range of pressure and temperature regimes, reactor configurations and catalysts to greatly enhance the quality of the fuel yield. The detailed lab-grade engineering output is expected to facilitate the design of a full-scale commercial plant with predictable performance, capital cost expectations and operating cost metrics. It is anticipated that the fabrication and construction phase of this R&D facility to commence by the end of the first quarter of 2022.

When sufficient facility flow characteristics, chemical engineering parameters and optimized data from the Aldersyde Facility and/or Fort Saskatchewan research and development facility are captured to ensure confidence in the Company's ability to achieve continuous production on a commercial scale, Cielo expects to commence engineering design for a full-scale Fort Saskatchewan facility and a joint arrangement facility near Medicine Hat, Alberta.

SELECTED FINANCIAL INFORMATION

(Thousands of dollars)	July 31, 2021	April 30, 2021 (RESTATED)
Total assets	46,349	45,192
Total non-current liabilities	1,058	1,574
Working capital surplus (deficiency)	5,078	(688)

	Three months ended	
(Thousands of dollars, except per share amounts)	July 31, 2021	July 31, 2020 (RESTATED)
Total revenue	-	4
Financing costs	122	189
General and administrative	1,556	540
Research and development	1,682	143
Net loss	(3,039)	(1,276)
Net loss per share – basic & diluted	(0.005)	(0.005)

General and Administrative	**Three months ended**	
(Thousands of dollars)	**July 31, 2021**	**July 31, 2020**
Professional fees	715	348
Salaries and benefits	547	38
Property tax and insurance	166	81
Office and administrative	128	73
Total	**1,556**	**540**

Research and Development	**Three months ended**	
(Thousands of dollars)	**July 31, 2021**	**July 31, 2020**
Operating expenses	1,046	122
Personnel costs	636	21
Total	**1,682**	**143**

General and Administrative

General and administrative expenses in the current quarter increased by $1.0 million compared to the same period in prior year. The increase was due to salaries and benefits for the additional employees hired to facilitate the growth of the Company, professional fees incurred related to the listing of TSXV, and the increase in property tax and insurance as a result of the continuous construction and development activities at the Aldersyde Facility.

Research and Development

Research and development expenses in the current quarter increased by $1.5 million compared to the same period in prior year, due to the increase in research and development activities conducted at Aldersyde Facility, with a focus on the reactor design optimization, inlet feed system improvements, and a waste recovery management system. During the three months ended July 31, 2020, the Aldersyde Facility was shut down as a result of the COVID-19 pandemic.

SUMMARY OF QUARTERLY RESULTS

The table below summarizes Cielo's financial results for the last eight fiscal quarters:

(Thousands of dollars, except per share amounts)

	2022	2021 (RESTATED)				2020 (RESTATED)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	-	-	-	-	4	-	-	-
Net loss	(3,039)	(33,884)	(1,620)	(2,929)	(1,276)	(270)	(1,810)	(976)
Net loss per share -basic & diluted	(0.005)	(0.067)	(0.005)	(0.010)	(0.005)	(0.001)	(0.008)	(0.005)

The net loss for the three months ended July 31, 2021 was $3.0 million, a decrease of $30.8 million compared to the fourth quarter of fiscal 2021, and an increase of $1.8 million compared to the same period in prior year. The decrease of $30.8 million in net loss was mainly due to the non-cash loss on fair value of warrant liability of $27.6 million in the fourth quarter of fiscal 2021, primarily as a result of the increases of Cielo's share prices from $0.09 on January 29, 2021, to $0.92 as at April 30, 2021. The increase of $1.8 million in net loss was primarily due to the increase of $1.0 million in general and administrative expenses, and the increase of $1.5 million in research and development expenses related to Aldersyde Facility, partially offset by the $0.5 million fair value gain of warrant liability in the current quarter.

Fluctuations in net loss for each quarter generally relate to the fair value change of warrant liability, and the amounts of financing and development expenses the Company incurred during the respective quarter. The business of Cielo, when in commercial production, is expected to exhibit some seasonality and cyclicality due to overall consumption patterns of refined products, broad macro-economic activity, and extenuating events. Low carbon fuels act as both substitutes and measures to reduce carbon intensities of fossil fuels. Seasonal increases in demand for heating oil can increase diesel prices as refiners may produce more heating oil to meet demand. In addition, broad economic activity and extenuating events, such as COVID-19, can negatively impact the consumption of fuels. In some cases, consumer preferences and rates of adoption of low carbon fuels may partially or completely offset any declines as a result of broad economic declines.

LIQUIDITY AND CAPITAL RESOURCES

Cielo's primary objective for managing liquidity and capital resources is to ensure the Company has sufficient funds available for research, development and other corporate activities. As at July 31, 2021, the Company had $14.1 million of cash, and working capital surplus of $5.1 million. The Company does not yet generate sufficient operational cash flows to meet the Company's planned growth or to fund development activities. The Company will require additional capital to fund the 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 and they may depend on prevailing commodity prices, general economic conditions and the Company's success in its research and development activities. See "Going Concern" for additional information.

Financing Activities

Subsequent to July 31, 2021, the Company entered into a $12 million loan; repaid a $1 million promissory note; and completed a non-brokered private placement for the issuance of 4,000 unsecured, non-interest-bearing convertible debentures, for gross proceeds of $4,000,000, each debenture being $1,000 and convertible at $1.25 per share, which debentures were converted into 3,200,000 common shares. See "Subsequent Events" for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

As at July 31, 2021, Cielo did not have any off-balance sheet arrangements in place that would materially impact its financial position or results of operations.

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 Energy Inc. ("Renewable U")

For the three months ended July 31, 2021, Cielo's Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations, were both directors and shareholders of Renewable U, a privately-owned Alberta corporation. The CEO, director and indirectly a shareholder of Renewable U, Ryan Jackson was 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, for the planning and construction of facilities subject to the anticipated joint arrangement. 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 was $35,809 (April 30, 2021 - $97,194).

Brand U Agency Inc. ("Brand U")

For the three months ended July 31, 2021, Cielo's Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations each owned 1/3 of the total outstanding shares of Brand U. On November 1, 2019, Cielo entered into a service agreement with Brand U, whereby Brand U provides marketing service to Cielo, in exchange for a service fee.

In connection with the 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 was $17,493 (April 30, 2021 - $21,644). In September 2021, the Company provided 30 days' notice to Brand U to terminate the service agreement on October 25, 2021.

OUTSTANDING EQUITY

Cielo's issued and outstanding common shares, along with common shares potentially issuable are as follows:

(Number of common shares, warrants, and stock options)	July 31, 2021	April 30, 2021
Common shares	645,179,912	611,682,938
Total common shares issued and outstanding	**645,179,912**	**611,682,938**
Convertible debentures	-	12,462,500
Warrants	3,750,000	24,331,159
Stock options	950,000	1,395,000
Total common shares potentially issuable	**4,700,000**	**38,188,659**
Total	**649,879,912**	**649,871,597**

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 $3.0 million of cash in July 2021 prior to issuance of debenture certificates in August 2021. The $3.0 million cash received is included in the cash balance 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 to FCF 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 interim financial statements for the three months ended 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.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting, using accounting policies consistent with IFRS requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income, and expenses. Estimates and judgments are evaluated each reporting period and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and assumptions are subject to inherent risk of uncertainty and actual results may differ from these estimates and assumptions. For the three months ended July 31, 2021 and 2020, a summary of significant accounting policies were disclosed in Note 4 to the unaudited condensed consolidated interim financial statements. For the years ended April 30, 2021 and 2020, a summary of significant accounting policies were disclosed in Note 4 to the audited financial statements.

Significant estimates are used for, but not limited to, the measurement of the fair value of convertible debentures, warrant liability, share-based payment transactions, and deferred income taxes.

RESTATEMENT OF JULY 31, 2020 COMPARATIVE PERIOD FINANCIAL INFORMATION

As disclosed in Note 20 to the audited financial statements for the years 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 months ended July 31, 2020. The restatement of July 31, 2020 comparative period financial information reflects the following changes:

- 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 for the three months 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.

- 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.

The restatement impact of the two errors described above on the comparative period financial statements has 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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There have been no new accounting standards and interpretations issued by the IASB that have a material impact on the Company’s unaudited condensed consolidated interim financial statements for the three months ended July 31, 2021, and 2020.

RISK FACTORS

An investment in the securities of the Company involves numerous and significant risks. Investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk Factors" in the Company’s annual MD&A dated September 17, 2021, available on SEDAR at www.sedar.com for a description of these risk factors. The Company’s operational, financial, liquidity and other risks have not materially changed since the date of the annual MD&A.

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ADDITIONAL INFORMATION

Additional information related to Cielo is available on SEDAR at www.sedar.com.