CIELO WASTE SOLUTIONS CORP.

Management's Discussion and Analysis

For the years ended April 30, 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 17, 2021, should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the audited financial statements and notes thereto for the years ended April 30, 2021, and 2020. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). As described in note 20 to the audited financial statements for the year 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" 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 17, 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 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
- expectations regarding joint arrangements
- expectations regarding technology and intellectual property owned by or licensed to the Company
- industry conditions
- demand fundamentals for fuels from waste and renewable fuels; and
- the anticipated impact of the factors discussed under the heading "Risk Factors".

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’’.

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’’ 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 17, 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 $58.4 million as at April 30, 2021 and generated a loss of $39.7 million for the year ended April 30, 2021. There is a working capital deficiency of $0.7 million as at April 30, 2021 and 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’s 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 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.

2021 FINANCIAL OVERVIEW

- Total assets increased by $24.8 million as at April 30, 2021 compared to April 30, 2020. The increase was due to $17.1 million increase in cash, mainly as a result of the conversion of convertible debentures and the exercise of warrants, and $8.1 million increase in property, plant and equipment related to the construction activities at Aldersyde Facility.

- Total non-current liabilities decreased by $7.7 million as at April 30, 2021 compared to April 30, 2020. The decrease was due to the repayment of a loan from BJK Holdings Ltd. and the conversion of convertible debentures.

- Working capital deficiency decreased by $2.8 million to $0.7 million as at April 30, 2021 as a result of $17.1 million increase in cash, partially offset by the increase in short-term warrant liability, deferred revenue and fees, and accounts payable and accrued liabilities compared to April 30, 2020.

- The net loss for the year ended April 30, 2021 was $39.7 million, an increase of $35.5 million compared to $4.2 million net loss in the prior year, due to the following:

  - The non-cash loss on fair value of warrant liability of $28.5 million in the current year, primarily as a result of the increase of Cielo's share price from $0.04 as at April 30, 2020, to $0.92 as at April 30, 2021

  - The recognition of prepaid interest costs of $3.5 million included in financing cost, primarily as a result of the early conversion of convertible debentures in the current year

  - The increase of $0.9 million in research and development expenses in the current year compared to fiscal 2020 related to the Aldersyde Facility.

2021 OPERATIONAL OVERVIEW

Aldersyde Facility Update

In January 2021, the Company installed new cooling equipment at its Aldersyde Facility to efficiently cool the process waste system in order to increase production batch interval time. The Company also installed a submersible heater and slurry circulation loop to the reactor in order to optimize reactor performance. The Aldersyde Facility has been producing in batch mode since opening in July 2019.

The Company has reached 1000 LPH and has historically produced on a 24-hour continuous basis. Cielo has temporarily slowed production to improve the consistency of the product. We have internal engineers and external engineering consulting firms engaged in continuous optimization and improvements for the development of full-scale facilities.

While Cielo continuously reviews all aspects of facility improvements, the Company is focusing 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, including the implementation of a centrifuge system for the waste recovery process with the aim of recovering additional carrier fluid and catalyst with an anticipated reduction in operating costs.

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. Commissioning of the desulfurization process equipment is expected to be completed by the end of September 2021.

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.

Prepaid Fuel Sale

In February 2021, the Company received total proceeds of $1.5 million in connection with a prepaid sale of 900,000 liters of diesel at $1.67 per liter. The Company has agreed to assist the buyer in re-selling the inventory and has agreed to increase the volumes to be sold if the proceeds obtained by the buyer through the re-sale process are less than $1.5 million. In connection with the prepaid sale, 3,750,000 warrants were issued, and each exercisable into one (1) Cielo share at $0.13 per share for 2 years. The $1.1 million value of the warrants was expensed and recorded in other expenses (income) in the statements of net and comprehensive loss.

Memorandums of Understanding with Renewable U

The Company has entered into a total of nine (9) memorandums of understanding ("MOUs") with Renewable U Energy Inc. ("Renewable U") (four (4) being entered into in fiscal 2021) 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.

Pursuant to the MOUs, in consideration for the opportunity to enter into joint arrangement agreements, Renewable U and its affiliates paid a fee of $250,000, to the Company for the execution of each MOU. 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 each such facility subject to certain exclusions and will continue to receive management fees once operations begin based on industry standards. See "Related Party Transactions" for additional information.

Medicine Hat Facility

The first facility that Cielo intends to build with Renewable U will be located outside of Medicine Hat, Alberta in Dunmore, Alberta (the "MH Facility"). The 80-acre parcel of land for the MH Facility is located directly east of Canadian Pacific Railway's ("CP Rail") Dunmore Rail Yard and is optimally located between the TransCanada #1 Highway and CP Rail's main line. This location is expected to provide Cielo with the flexibility to bring in various waste feedstocks and ship the end-products out by rail and/or by other ground transportation. The proposed MH Facility's current design contemplation is for facilities capable of producing approximately 4,000 LPH of diesel from waste. The current plan considers three facilities over three phases of development, which resulted in an increased capacity from a previously planned 10,000 LPH facility.

Intellectual Property

In July 2020, the United States Patent and Trademark Office issued a U. S. Patent to 1888 Inc for enhanced distillate oil recovery from thermal processing and catalytic cracking of biomass slurry, from whom Cielo holds a worldwide exclusive license to its waste to fuel technology. In September 2020, the Canadian Patent and Trademark Office issued a Canadian patent to 1888 Inc for the same process, which Cielo also has a worldwide exclusive license to.

Canadian Regulatory Framework

On December 19, 2020, the federal government published its proposed Clean Fuel Regulations (CFR) in the Canada Gazette, Part I for public review and comment. The CFR is expected to be finalized and published in the Canada Gazette, Part II in late 2021, with regulatory requirements set out in the CFR coming into force in December 2022. The CFR, as proposed, would require liquid fossil fuel suppliers to reduce the carbon intensity of the fuels used in Canada from 2016 levels by 12 grams of carbon dioxide equivalent per megajoule (gCO2e/MJ) by 2030, which represents a decrease of approximately 13% in carbon intensity levels below 2016 levels. The CFR will also establish a credit market to give suppliers flexibility in meeting their annual reduction requirements. Suppliers will be able to create credits by: (i) undertaking projects that reduce the life cycle carbon intensity; (ii) supply low carbon intensity fuels; and (iii) investing in advanced vehicle technologies. The CFR will retain the volumetric requirements for low-carbon intensity fuel content currently found in the Renewable Fuels Regulations under the Canadian Environmental Protection Act. The Renewable Fuels Regulations currently require fuel producers and importers to have a renewable fuel content of at least 5% of the volume of gasoline that they produce or import each calendar year and of at least 2% of the volume of diesel fuel and distillate heating oil they produce or import each calendar year.

Under Alberta's Renewable Fuels Standard Regulation, a fuel supplier must ensure that gasoline fuel it places in the Alberta market in a calendar year contains, on average, no less than 5% qualifying renewable alcohol content by volume and a fuel supplier must ensure that the diesel fuel that it places in the Alberta market in a calendar year, on average, no less than 2% qualifying bio-based diesel content by volume. In British Columbia, the British Columbia Low Carbon Fuel Standard, which applies to fuels used for transportation (other than for aircraft and military operations) requires reductions in lifecycle carbon intensity of transportation fuels and requires that 5% of gasoline and 4% of diesel volumes must contain renewable fuels. Other jurisdictions in Canada, including Ontario and Saskatchewan, have adopted regulations that require that a portion of diesel be bio-based. Cielo's goal is to produce a renewable diesel is intended to meet the requirements to be a renewable fuel for the purposes of the federal Renewable Fuels Regulation and the Alberta Renewable Fuels Standard Regulation.

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 in Fort Saskatchewan, Alberta, which is expected to be in operation in 2022, to further assist with its research and development activities to achieve continuous production on a commercial scale.

Cielo anticipates beginning engineering design for a full-scale Fort Saskatchewan facility and MH Facility 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.

Management believes that low carbon fuels are at the forefront of both policy and business landscapes as countries around the world, including Canada, (as demonstrated by the CFR discussed above), seek to decrease petroleum dependence and reduce greenhouse gas (“GHG”) emissions in the transportation sector. After more than a decade of healthy growth for conventional renewable fuels like ethanol and biodiesel, management believes that advanced bioenergy fuels converted from waste is currently on the cusp of commercial scale-up. Ensuring a sustainable supply of bioenergy is a key element of the International Energy Agency’s (“IEA”) Net Zero by 2050 – A Roadmap for the Global Energy Sector. Conventional renewable fuels primarily come from dedicated bioenergy crops, which can conflict with food production. In the IEA’s net zero emissions roadmap, there would be an emphasis on feedstocks that do not require the use of arable lands. The IEA’s net zero emissions roadmap contemplates that advanced bioenergy would account for the vast majority of bioenergy supply by 2050.

SELECTED ANNUAL INFORMATION

	2021	2020 (RESTATED)	2019 (RESTATED)
Total revenue	4,200	3,000	3,000
Financing costs	5,052,865	523,136	-
General and administrative	2,623,758	2,662,113	1,326,465
Research and development	2,052,793	1,145,551	476,408
Fair value change of warrant	28,540,436	(391,144)	(797,819)
Net loss	(39,708,974)	(4,184,571)	(1,308,159)
Net loss per share – basic & diluted	(0.11)	(0.02)	(0.01)
Total assets	45,192,255	20,413,250	13,096,709
Total non-current liabilities	1,573,561	9,257,213	2,544,831

General and Administrative	**2021**	**2020**
Professional fees	1,387,844	1,336,764
Salaries and benefits	558,919	475,603
Property tax and insurance	455,672	266,157
Office and administrative	221,323	583,589
Total	**2,623,758**	**2,662,113**

Research and Development	**2021**	**2020**
Operating expenses	1,588,143	759,167
Personnel costs	464,650	386,384
Total	**2,052,793**	**1,145,551**

General and Administrative

General and administrative expenses in the current year were consistent compared to prior year. The increase in property tax and insurance expenses in the current year was due to the continuous construction and development activities at the Aldersyde Facility, partially offset by the decrease in office and administrative expenses due to office closure and less travel as a result of the COVID-19 pandemic.

Research and Development

Research and development expenses in the current year were higher compared to the 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.

SUMMARY OF QUARTERLY RESULTS

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

	2021				2020 (RESTATED)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	-	-	-	4,200	-	-	-	3,000
Net loss	(33,883,985)	(1,619,892)	(2,928,884)	(1,276,213)	(269,731)	(1,810,373)	(976,257)	(1,128,210)
Net loss per share - basic & diluted	(0.067)	(0.005)	(0.010)	(0.005)	(0.001)	(0.008)	(0.005)	(0.006)

The net loss for the fourth quarter of 2021 was $33.9 million, an increase of $32.3 million compared to the third quarter of 2021, and an increase of $33.6 million compared to the same period in prior year. The increases in net loss were 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 $0.04 as at April 30, 2020, and $0.09 on January 29, 2021, to $0.92 as at April 30, 2021.

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 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 April 30, 2021, the Company had $17.2 million of cash, and working capital deficiency of $0.7 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

In September 2020, the Company completed a non-brokered private placement for the issuance of 4,694.64 convertible debenture units, with each unit comprised of one $1,000 unsecured convertible debenture and 7,500 share purchase warrants, for gross proceeds of $4.7 million.

In December 2020, the Company completed a non-brokered private placement for the issuance of 25,691,000 units, with each unit comprised of one Class A common share and one warrant, for gross proceeds of $2.1 million.

In March 2021, the Company repaid its largest secured lender in full, eliminating a senior secured loan of approximately $3.8 million before the maturity date of June 2, 2022.

In April 2021, the Company received a conditional grant from Alberta Innovates in the amount of $0.5 million toward the $0.9 million needed for a commercial feedstock demonstration of used railway ties at the Aldersyde Facility.

In April 2021, the Company completed a non-brokered private placement and issued 10,000 non-interest-bearing, unsecured convertible debentures in the amount of $1,000, for gross proceeds of $10 million. All of the convertible debentures were immediately converted into Cielo common shares upon issuance at a price per share of $1.02.

Subsequent to April 30, 2021, the Company entered into a $12 million loan and completed a $4 million convertible debenture offering. See "Subsequent Events" for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

As at April 30, 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

Key Management Personnel

Key management personnel are comprised of Cielo's executive officers and the Board of Directors. Compensation of key management personnel is reviewed annually by the compensation committee of the Board of Directors against a selected industry peer group to align the interests of key management personnel and shareholders.

Compensation expenses for key management personnel are summarized below:

	2021	**2020**
		(RESTATED)
Salary and cash bonus	**558,416**	373,681
Equity settled share-based compensation	**277,522**	181,708
Total	**835,938**	555,389

Common shares issued to key management personnel are summarized below:

	2021		2020	
	Number of shares	**Amount**	Number of shares	Amount
Shares issued for convertible debentures conversion	**16,623,757**	**751,000**	-	-
Shares issued for prepaid interest	**372,857**	**17,871**	2,570,143	247,435
Shares issued for warrant exercise	**4,101,827**	**662,153**	-	-
Total	**21,098,441**	**1,431,024**	2,570,143	247,435

1888711 Alberta Inc.

The president and Chief Executive Officer ("CEO") of 1888 Inc is the president and CEO of Cielo. During the year ended April 30, 2021, Cielo charged 1888 Inc total expenses of $91,217 (2020 - $71,800) in relation to 1888 Inc using Cielo's office space for business purpose. As at April 30, 2021, the amount receivable from 1888 Inc is $186,216 (2020 - $94,999).

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. 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.

Cielo also has a right to repurchase the rights in the technology it had granted to 1888 Inc, as well as all intellectually 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 and director 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.

Pursuant to the MOUs, in consideration for the opportunity to enter into joint arrangement agreements, Renewable U and its affiliates paid a fee of $250,000, to the Company for the execution of each MOU. The fees are non-refundable unless a joint arrangement agreement is not executed. In the event that the Company does not execute a definitive joint arrangement agreement, in which case the fees would be repaid by an issuance of common shares of the Company. During the years ended April 30, 2021, and 2020, the Company entered into four (4) MOUs (2020 – one (1) MOU) with Renewable U and its affiliates. Renewable U paid the Company cash fees of $1,000,000 and $250,000 in fiscal 2021 and 2020, respectively.

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 years ended April 30, 2021, and 2020, the Company charged Renewable U management fees of $257,649 and $80,542, respectively, for the planning and construction of facilities subject to joint arrangement. The management fees were recorded as other income in the statements of net and comprehensive loss. As at April 30, 2021, the amount receivable from Renewable U is $97,194 (2020 - $84,569 including GST).

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 $199,713 and $108,816, respectively, for the years ended April 30, 2021, and 2020. In September 2020, the Company issued 1,575,000 common shares with a fair value of $110,250, as a form of payment to Brand U. As at April 30, 2021, the amount payable to Brand U is $21,644 (April 30, 2020 - nil). The Company is currently in the process of terminating the service agreement with Brand U.

SSCR Corporate Solutions ("SSCR")

The Company's former Chief Financial Officer ("CFO"), who resigned subsequent to April 30, 2021, controlled SSCR. SSCR provides accounting, human resource and payroll services to Cielo, in exchange for a service fee. For the years ended April 30, 2021, and 2020, SSCR charged Cielo service fees of $246,724 and $132,143, respectively, for the accounting service provided by the former CFO, which has been included in the compensation expenses for key management personnel table above. In addition, SSCR charged Cielo service fees of $35,857 in the current year (2020 - $26,563) for the HR and payroll services. As at April 30, 2021, the amount payable to SSCR is $20,674 (April 30, 2020 – 28,266). The Company has hired a human resource professional to transition the human resource and payroll services from SSCR to an internal function.

OUTSTANDING EQUITY

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

(Number of common shares, warrants, options and units)	April 30, 2021	April 30, 2020
Common shares	**611,682,938**	244,044,047
Total common shares issued and outstanding	**611,682,938**	**244,044,047**
Convertible debentures	**12,462,500**	88,881,083
Warrants	**24,331,159**	59,208,085
Stock options	**1,395,000**	3,740,000
Restricted share units	**-**	3,250,000
Total common shares potentially issuable	**38,188,659**	**155,079,168**
Total	**649,871,597**	**399,123,215**

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 by a syndicate with First Choice Financial ("FCF") and KV Capital ("KV") (the "Loan").
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 to a maximum of five years. The Loan is interest payment only and Cielo is entitled to repay the Loan at any time before maturity without penalty.

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 will entitle 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, Stock Options and Conversion of Convertible Debentures

In May 2021, the Company issued 20,589,474 common shares upon the exercise of 20,589,474 warrants. The exercise prices of these warrants were between $0.09 to $0.25 per share. In addition, the Company issued 445,000 shares upon the exercise of 445,000 stock options at the exercise price of $0.10 per share.

In June 2021, the Company issued 12,462,500 common shares upon the conversion of $709,500 principal of convertible debentures. The exercise prices of these convertible debentures were between $0.05 and $0.08 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").

Pursuant to the Financing, the Company issued 4,000 non-interest-bearing, unsecured convertible debentures (the "Debentures"), each issued at $1,000 per August 2021 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.

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.

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.

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 financial statements for the year ended April 30, 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

Note 4 to the financial statements for the years ended April 30, 2021 and 2020 includes a summary of significant accounting policies.

The preparation of the financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") 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.

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 APRIL 30, 2020 COMPARATIVE PERIOD FINANCIAL INFORMATION

During the preparation of the April 30, 2021 audited financial statements, the Company identified the following two matters, which required restatement of the previously reported opening deficit as at May 1, 2019 and the comparative period financial information as at and for the year ended April 30, 2020.

- 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 April 30, 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 over the life of the project through to April 30, 2020, the comparative period financial statements and the reported deficit at May 1, 2019 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 Loss 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, including the opening deficit as at May 1, 2019, 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 $523,136 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 year ended April 30, 2020**	**Amount restated for the year ended April 30, 2020**	**Change**
Property, facility & equipment	15,835,170	18,565,688	2,730,518
Warrant liability	-	147,681	147,681
Long term debt	3,694,562	3,118,843	(575,719)
Contributed surplus	7,025,765	3,725,559	(3,300,206)
Deficit	(25,195,610)	(18,736,848)	6,458,762
Financing costs	1,579,072	523,136	(1,055,936)
Loss (gain) on settlement of debt with shares	425,548	(97,588)	(523,136)
Fair value change in warrants	-	(391,144)	(391,144)
Net loss and comprehensive loss	(6,154,787)	(4,184,571)	1,970,216
Loss per share	(0.03)	(0.02)	0.01

The restatement impact of the two errors described above on the opening statement of financial position as at May 1, 2019 are as follows:

Financial Statement Caption	**Amount previously reported as at April 30, 2019**	**Amount restated as at May 1, 2019**	**Change**
Property, facility & equipment	10,905,981	11,861,302	955,321
Warrant liability	-	538,825	538,825

Long term debt	2,355,258	1,583,414	(771,844)
Contributed surplus	6,150,737	2,850,531	(3,300,206)
Deficit	(19,040,823)	(14,552,277)	4,488,546

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 financial statements for the year ended April 30, 2021.

RISK FACTORS

The following are certain factors relating to the Company's business which investors should carefully consider. These risks and uncertainties are not the only ones the Company is facing. Additional risk and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our operations. If any such risks actually occur, the business, financial condition, liquidity and results of our operations could be materially adversely affected.

The Company faces operational risks and its facilities may fail performance expectations

Waste to fuel refining operations generally involve a high degree of risk including hazards and risks normally encountered in obtaining feedstock, process design, the fluctuation of fuel prices and possible damage to, or destruction of the producing facilities, damage to life or property, environmental damage and possible legal liability. Certain operational risks include fire, explosion, and spills. The costs of any of these incidents could have a material adverse effect on the Company's business, financial condition, results of operations, legal liability, cash flows or prospects.

The performance of the Company's TCD and related systems at its Aldersyde Facility and potential additional facilities may encounter problems due to the failure of technology, the failure to combine technologies properly, operator error or the failure to maintain and service the facilities properly. There is no certainty that the facilities will, or will continue to, result in production of commercial quantities of low carbon fuels. Refining operations are subject to hazards such as equipment failure and fuel storage areas, which may result in environmental pollution and consequent liability. Many potential problems and delays are beyond the Company's control, such as COVID related facility closures and supply chain disruptions. Any problem with the Company's facilities, whether originating from its technology, design, or installation, could have a material adverse effect on the Company's business, financial condition, results of operations, legal liability, cash flows or prospects.

We are currently dependent upon Aldersyde Facility, which is primarily in a research and development stage, and have not commenced construction of other facilities. Our commercial success depends on our ability to achieve continuous production and develop and operate our facilities

As of the date of this MD&A, all our refining activities are conducted at our Aldersyde Facility and our existing regulatory approvals are specific to that location. We are and will be until additional facilities are built, solely dependent on the Aldersyde Facility for revenue generation. We recently acquired land in Fort Saskatchewan, near Edmonton, Alberta to build our second 100% owned facility, and our joint arrangement partner, Renewable U has acquired land near Medicine Hat, in Dunmore Alberta, where the MH Facility is planned to be built. We, nor Renewable U, hold land for any of our other planned facilities. Licensing or construction delays or cost over-runs in respect of the development of new facilities could delay, diminish or prevent our ability to convert waste to fuels at these facilities.

The Aldersyde Facility is currently capable of converting certain waste into a distillate product that consists of diesel, kerosene and naphtha. The Company is continuing its research and development activities to achieve continuous production on a commercial scale. There can be no assurance that the Company will be successful in achieving continuous production on a commercial scale. The Company's business strategy also includes producing a fuel that can be classified as highway diesel and renewable fuel under applicable legislation in Canada. If the Company is unable to achieve its goal of reaching continuous production, it may have a material adverse effect on the demand and price for its products, cash flows, and financial performance. Additionally, if the Company is unable to produce highway diesel or renewable fuel, it may have an adverse effect on the price for its products and cash flows.

In addition to risks associated with the Company's efforts to refine its processes to be able to achieve continuous production and produce highway diesel and renewable fuels, there is no assurance that the Company and its joint arrangements will be successful in their plans to design, build, own, and operate additional facilities that convert waste into distillate, highway diesel or renewable fuels. Construction of facilities may take many years to complete, and market conditions can change from our forecasts. As a result, we may be unable to fully realize our expected returns, which could negatively impact our financial condition, results of operations, and cash flows. A number of factors related to the development and operation of individual facilities could adversely affect the Company's business, including:

- regulatory changes that affect the demand for or supply of low carbon fuels and the prices thereof, which could have a significant effect on the Company's cash flows and financial condition;
- regulatory changes to waste management policies or changes to the waste collection industry that could reduce the amount of waste available to be used at our facilities;
- changes in the regulatory in the regions where the Company operates or is developing new facilities;
- ability to obtain regulatory permits on acceptable terms;
- changes in energy commodity prices, such as diesel fuel and naphtha;
- a decrease in the availability, pricing and timeliness of delivery of raw materials and components necessary for the facilities to function;
- the competitive landscape if an increased number of waste to energy facilities become operational; and
- unexpected delays in the development and completion of facilities as well as unforeseen events giving rise to force majeure or unexpected delays once such facilities are operational.

Any of these factors could prevent the Company from completing or operating its projects, or otherwise adversely affect its business, financial condition and results of operations.

The final amount of capital expenditures relating to the development of our facilities may be significantly greater than expected, in which case we may be required to curtail or delay construction and development of our facilities, which would reduce our planned production capacity and adversely affect our growth plans, cash flows and financial condition. We or our joint arrangement partners will likely need to raise capital for the construction and development of our facilities, which may not be available on acceptable terms, or at all.

We will rely on certain intellectual property and the License Agreement to operate our facilities

Cielo relies or may rely on a combination of patents, trademarks, trade names, trade secrets, confidentiality agreements and other contractual restrictions on disclosure to protect its intellectual property rights. Cielo also enters into confidentiality agreements with employees, consultants and other third parties, and controls access to and distribution of Cielo's confidential information. Cielo's success will depend in part on its ability to maintain or obtain and enforce patent and other intellectual property protection for Cielo's process and technologies and to preserve trade secrets, and to operate without infringing upon the proprietary rights of third parties. Setbacks or failures in these areas could negatively affect Cielo's ability to compete and materially and adversely affect Cielo's business, financial condition and results of operations.

If Cielo is unable to protect intellectual property or if a competitor develops or obtains exclusive rights to a breakthrough technology, the impact on our business and financial performance may be significant. Developments in technology could trigger a fundamental change in waste processing and the renewable energy industries, which may adversely impact volumes at our facilities and ultimately the Company's financial performance.

Cielo's interest in the technology and intellectual property on which its facilities are based is licensed to Cielo by 1888 Inc, a third party. Although the License Agreement governing the licence of this technology and intellectual property contains terms which management believes are favourable to Cielo, and Cielo and 1888 Inc have one or more directors, officers and/or shareholders in common, the termination of or a dispute arising from the License Agreement would have a material adverse effect on Cielo's operations and financial condition.

Through 1888 Inc and the License Agreement, Cielo has obtained, directly or indirectly, patents and/or filed patent applications in the United States and Canada, and may, in the future, seek additional patents or file patent applications.

There can be no assurance that Cielo will be successful in obtaining patents it applies for in the future. Third parties may infringe on our patents or 1888 Inc's patents that we have a license to use. To counter infringement or unauthorized use, we or 1888 Inc may need to file infringement claims, and in an infringement claim, there is risk that a court will decide that a patent of ours or 1888 Inc's is invalid or unenforceable, in whole or in part, and that we nor 1888 Inc have the right to stop the other party from using the invention at issue. Additionally, there can be no assurance that the scope of any claims granted in any patent will provide 1888 Inc or Cielo with adequate protection for the processes used by Cielo currently or in the future. Cielo cannot be certain that the creators of our technology were the first inventors of inventions and processes covered by the patents and patent applications or that they were the first to file. Accordingly, there can be no assurance that the 1888 Inc patents Cielo has access to will be valid or will afford Cielo with protection against competitors with similar technology or processes.

We intend to conduct some of our operations through joint arrangement and our joint arrangement partners' interests may not always align with our own

We intend to conduct some of our operations through joint arrangements, including joint arrangements with Renewable U, in which we may share control over certain economic and business interests. There will be a variety of risks associated with our interest in the joint arrangements, including:

- potential disagreements with our joint arrangement partners about how to construct, operate or finance a facility;
- joint arrangement partners may have economic, business or legal interests, or goals that are inconsistent with our goals and interests;
- joint arrangement partners may be unable to meet their, or may not meet their, obligations under our arrangements with them; and
- disagreements with joint arrangement partners over the exercise of their rights under the agreements that will govern their relationship with us.

Failure by us, or an entity in which we have a joint arrangement interest, to adequately manage the risks associated with joint arrangements, and any differences in views among us and our joint arrangement partners, which could prevent or delay actions that are in the best interest of us or the joint arrangement, could have a material adverse effect on our, or our joint arrangements', financial performance, results of operations, and liquidity.

We are in the process of negotiating definitive agreements with Renewable U to formally implement the joint arrangements with them. The definitive agreements will replace the MOUs currently in place with Renewable U. The entering into of definitive agreement with Renewable U may be delayed, which could adversely affect the timing for the construction and development of the joint arrangement Facilities. Moreover, there can be no assurance that we will enter into definitive agreements with Renewable U or that the definitive agreements, if entered into, will reflect the terms and conditions as set forth in the MOUs. Under the MOUs, Renewable U will be obligated to finance the construction costs for the applicable facilities. There can be no assurance that Renewable U will be able to obtain such financing on acceptable terms or at all.

Any change in our relationships with Renewable U, whether as a result of economic or competitive pressures or otherwise, including any decision by Renewable U to change or seek to change the terms of our contractual relationships with them, could have a material adverse effect on our business and financial results.

We are dependent on third parties for our feedstock and significant interruptions in our access to certain key inputs may impair operations at our facilities

As feedstocks comprise the primary input in converting waste to fuels, changes in the price or availability of feedstocks can significantly affect Cielo's business. We are dependent on third parties for our feedstock. The Company relies on obtaining long-term for the supply of feedstock materials. There can be no assurance that the Company will be able to contract for feedstock or re-contract with any given party upon expiry of a given contract, nor is there any assurance that the Company would be able to replace lost feedstock as a result of a failure to renew an existing contract.

The price or availability of feedstock is influenced by many factors, including market demand, policies with respect to collection or management of waste and general economic and regulatory factors. The significance and relative effect of these factors on the price or availability of feedstock is difficult to predict. Any event that tends to negatively affect the supply of feedstock, could increase feedstock prices and potentially harm Cielo's business. In addition, Cielo may also have difficulty, from time to time, in physically sourcing feedstock on economic terms due to supply shortages. Such a shortage could require Cielo to suspend operations until feedstock is available at economical terms, which would have a material adverse effect on our business, results of operations and financial position.

In addition to feedstock, our business is dependent on a number of other key inputs and their related costs, including raw materials, supplies and equipment related to our operations, as well as electricity, water and other utilities. Any significant interruption, price increase or negative change in the availability or economics of the supply chain for key inputs could curtail or preclude our ability to develop our facilities or continue production and may have a material adverse impact on our business and results of operations.

Environmental regulations could have a significant impact on the energy industry

All phases of operating low carbon fuel production facilities present environmental risks and hazards. Cielo is subject to environmental regulation implemented or imposed by a variety of federal, provincial and municipal laws and regulations as well as international conventions. Among other things, environmental legislation provides for restrictions and prohibitions on spills and discharges, as well as emissions of various substances produced in association with low carbon fuel operations. Legislation also requires that facility sites be operated, maintained, abandoned and reclaimed in such a way that would satisfy applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines, penalties and liability, as well as potentially increased capital expenditures and operating costs. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge.

Renewable energy regulations are evolving, which could require the Company to incur substantial costs associated with compliance or alter certain aspects of its business plan. It is also possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Company's operations. The Company cannot predict the nature of any future laws, regulations, interpretations or applications towards renewable energy policies, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Company's business. The Company's business may suffer if environmental policies change to no longer encourage the development and growth of low carbon fuels. Public opinion can also exert a significant influence over the regulation of the renewable energy industry. A negative shift in the public's perception in the feasibility of renewable energy could affect future legislation or regulations in Canada and abroad which may have an adverse effect on our business.

Failure to comply with government regulations could subject Cielo to civil and criminal penalties, require Cielo to forfeit property rights and may affect the value of Cielo's assets or Cielo's ability to conduct its business. Cielo may also be required to take corrective actions, including, but not limited to, installing additional equipment, which could require Cielo to make substantial capital expenditures. Cielo could also be required to indemnify its employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against them. These could result in a material adverse effect on our business, financial condition and results of operations.

We have a limited operating history and a history of net losses, and we may not achieve or maintain profitability in the future

The Company has no history of significant or consistent earnings and there is no assurance that the Aldersyde Facility or any future facility will generate earnings, operate profitably, or provide a return on investment in the future.

Cielo has not generated sufficient positive cash flow on a consistent basis to cover corporate overhead costs and interest and principal payments on loan obligations. Cielo's ability to do so going forward will depend in part on factors over which management has no control. Although the Aldersyde Facility is producing, it may be a significant period of time before Cielo achieves consistent revenues while, concurrently, Cielo expects to incur significant costs in connection with ongoing research and development activities and with the building of its Fort Saskatchewan facility near Edmonton, Alberta.

Few low carbon fuel facilities are developed into profitable businesses without significant help from government subsidies. Major expenses may be required to establish the facility business. It is impossible to ensure that the current business plan by the Company will result in a profitable commercial refining operation.

In addition, Cielo's prospects must be considered in light of the risks and uncertainties encountered by an early-stage company in the rapidly evolving low carbon fuel market, where supply and demand may change significantly in a short period of time.

Our efforts to grow our business may be more costly than we expect and we may not generate enough revenue to offset our operating expenses. We may incur significant losses in the future for a number of reasons, including as a result of unforeseen expenses, difficulties, complications and delays in obtaining governmental licences and the other risks described in this MD&A. The amount of any future losses will depend, in part, on our ability to generate revenue on the one hand and any increases in our expenses on the other hand. If we continue to incur losses in the future, the net losses and negative cash flows incurred to date, together with any such future losses, will have an adverse effect on our shareholders' equity and working capital. Because of the numerous risks and uncertainties associated with our business and industry, we are unable to accurately predict when, or if, we will be able to achieve profitability. Even if we achieve profitability at some point in the future, we may not be able to sustain profitability in subsequent periods. If we are unable to achieve and sustain profitability, the market price of our common shares may significantly decrease and our ability to raise capital, expand our business or continue our operations may be impaired.

The results of our operations will depend on commodity prices

The profitability of the Company's operations will be significantly affected by changes in the market price of various fuels derived from waste. The level of interest rates, the rate of inflation, world supply and stability of exchange rates can all cause significant fluctuations in fuel prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of diesel fuel has fluctuated widely in recent years, and future serious price declines could cause continued commercial production to be impracticable. Depending on the price of diesel fuels, cash flow from operations may not be sufficient to fund growth or pay our obligations. Market fluctuations and the price of fuels derived from waste, may render refining uneconomical. Short-term operating factors relating to the production of fuels from waste, such as the increased feedstock costs or drop in low carbon fuel prices, could cause the refining operation to be unprofitable in any accounting period.

We require permits and authorizations to conduct our operations

Cielo's existing and proposed operations require, and Cielo's planned growth will require, licenses, permits and in some cases renewals of these licenses and permits from various governmental authorities both domestically and abroad. Cielo's ability to obtain, amend, comply with, sustain, or renew such licenses and permits on acceptable, commercially viable terms are subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. Cielo's inability to obtain, amend to conform to our operations, or extend a license or a loss of any of these licenses or permits may have a material adverse effect on our business, financial condition and results of operations.

Improvements in or new discoveries of alternative energy technologies could have a material adverse effect on our financial condition and results of operations

Because our business depends on the demand for oil products, including diesel, any improvement in or new discoveries of alternative energy technologies (such as fuel cells), government mandated use of such technologies or government restrictions or quotas on the use of oil that increase the use of alternative forms of energy and/or reduce the demand or market for oil, and related products could have a material adverse impact on our business, financial condition and results of operations.

New or changing technologies may be developed, consumers may shift to alternative fuels or alternative fuel vehicles (such as electric or hybrid vehicles) other than the fuels from waste we produce, and there may be new entrants into the low carbon fuels production industry that could meet demand for lower-carbon transportation fuels and modes of transportation in a more efficient or less costly manner than our technologies and products, which could also have a material adverse effect on our business.

In the event our competitors or future competitors design or implement new methodologies or new technology relating to the refining or re-refining of waste it could reduce demand for diesel or make our facilities uneconomic.

Developments with respect to low-carbon fuel policies and the market for alternative fuels may affect demand for our fuels and could adversely affect our financial performance

Low-carbon fuel policies, blending credits, and stricter fuel efficiency standards to help reach GHG emissions reduction targets help drive demand for our fuels derived from waste. Any changes to, a failure to enforce, or a discontinuation of any of these policies, goals, and initiatives could have a material adverse effect on our businesses.

Our operations face risks of interruption and casualty losses

Cielo may be subject to unexpected events and natural hazards, including severe weather events, interruption of utilities and infrastructure or occurrence of pandemics, which could cause sudden or complete cessation of its day-to-day operations. Sever weather events that could affect operations at our facilities, including wildfires, may become more frequent as a result of climate change. Any failure to respond effectively or appropriately to such events could adversely affect our operations, reputation and financial results.

Our facilities will be our principal operating assets. As a result, our operations could be subject to significant interruption if one or more of our facilities were to experience a major accident or mechanical failure, be damaged by severe weather or other natural or man-made disaster, such as an act of terrorism, or otherwise be forced to shut down. If any facility were to experience an interruption in operations, earnings from the facility could be materially adversely affected (to the extent not recoverable through insurance) because of lost production and repair costs.

Insurance may not be adequate or provided for losses we may incur

The Company may carry insurance to protect against certain risks in such amounts as it considers adequate. Risks not insured against include environmental pollution or other hazards against which such corporations cannot insure or against which they may elect not to insure.

Although Cielo obtains, or may obtain, insurance to protect against certain risks, there are limitations on insurance coverage that may not be sufficient to cover the full extent of such costs, or a particular risk may not be insurable in all circumstances, or the Company may elect not to obtain insurance in certain circumstances. A significant event that is not fully insured against could have a material adverse effect on Cielo's financial position, results of operations and cash flows.

Certain of our directors and officers serve as director and/or officers of other companies

Certain of the directors and officers of the Company also serve, or may serve, as directors and/or officers of other companies. Consequently, there exists the possibility for such directors and/or officers to be in a position of conflict with respect to the Company. Don Allan is a director and/or officer and/or beneficial shareholder of 1888 Inc. Each of Lionel Robins, Ryan Jackson and Raphael Bohlmann are directors or officers of Cielo as well as directors, officers and/or shareholders of Renewable U. Situations may arise where these directors and officers will be in competition with the Company or be subject to conflicting interests, as a result of their positions with such other entities. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the BCBCA which require a director or officer of a corporation who is a party, has a material in interest in, or is a director or an officer of or has a material interest in any person who is a party to, a contract or transaction with the Company, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the BCBCA. Certain directors or officer may determine that they are unable to continue in their positions with the Company as a result of a conflict of interest, which could have a material adverse effect on the Company's business.

We are vulnerable to the potential difficulties associated with rapid growth

We believe that our future success depends on our ability to manage the rapid growth that we have experienced, and the continued growth that we expect to experience. The Company's expected growth depends on its ability to leverage its industry experience and relationships with its partners, customers and vendors to ensure the economic viability of pursued opportunities. While the Company intends to focus on managing its costs and expenses over the long term, it expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities.

The waste to energy market is a relatively new industry

Because the waste to energy industry is in a nascent stage in Canada, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in us and, few, if any, established companies whose business model we can follow or upon whose success we can build.

Accordingly, investors should rely on their own estimates regarding the potential size, economics and risks of the waste-to-energy market in deciding whether to invest in our common shares.

There is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. We could also be subject to other events or circumstances that that adversely affect the waste-to-energy industry, such as reductions in fuel consumption.

We rely on certain key personnel and may be subject to labour disruptions

Cielo's success will depend on its directors and officers to develop its business and manage its operations and on its ability to attract and retain key personnel. The loss of any key person, including but not limited to the Company's President and CEO, or the inability to find and retain new key persons, could have a material adverse effect on Cielo's business. No assurance can be provided that Cielo will be able to attract or retain key personnel in the future, which may adversely impact its operations.

Cielo is also exposed to the risk of labour disruption in its operations. While Cielo does not anticipate any material labour disruptions in the near future, any prolonged work stoppages or other labour disputes could have an adverse impact on Cielo's financial results.

We may not be able to secure adequate or reliable sources of funding required to operate our business

Cielo's business is dependent on having access to sufficient capital and financial resources to fund its growth and investment in operations. Any failure to maintain adequate financial resources could impair Cielo's growth or ability to satisfy financial obligations as they come due. There can be no assurance that adequate capital resources will be available in the future on acceptable terms or at all.

In the future, Cielo may need additional financing to operate or grow its business. Cielo's ability to obtain additional financing, if and when required, will depend on investor and lender demand, success of Cielo's research and development activities, operating performance, the condition of the capital markets and other factors. Cielo cannot guarantee that additional financing will be available on favourable terms when required, or at all. If Cielo raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of Cielo's existing securityholders. Cielo's existing securityholders will experience dilution, perhaps to a substantial level, if Cielo raises the additional financing through the sale of shares of common stock. If Cielo is unable to obtain adequate financing or financing on terms satisfactory to management when require, Cielo's ability to continue to support the operation or growth of our business could be significantly impaired and our operating results will likely be harmed.

We face competition for other producers of low carbon fuel

There is competition within the low carbon fuel industry which is considered to have commercial potential. The Company will compete with other interests, many of which have greater financial resources than it will have for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production.

Cielo faces competition from other producers of fuels from waste with respect to the procurement of feedstock and selling of such fuels. Such competition could be intense, thus driving up the cost of feedstock and driving down the price for Cielo's products. Competition will likely increase if profit margins available to low carbon fuels producers rise. Additionally, new companies may enter the market, thus increasing the competition.

Other companies may have greater success in the recruitment and retention of qualified employees, as well as in conducting their own production and fuel marketing operations, and may have greater access to feedstocks, market presence, economies of scale, financial resources, and engineering, technical and marketing capabilities, which may give them a competitive advantage.

The loss of one or more of our larger customers could have a material adverse effect on our business

The loss of one or more of our larger offtake customers could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, financial difficulties experienced by customers could adversely impact their demand for our services and cause them to request amendments to our contracts with them.

Cyberattacks may cause disruptions to the Company's operations and could have a material effect on its business

Cielo is dependent on technology in our operations and if the technology fails, it could adversely impact the financial and operational performance of the Company. A cybersecurity incident including a breach of secure and private information could negatively impact our financial performance, subject us to criticism or affect our relationships with customers, employees, investors and other stakeholders. Cyber incidents including theft, alteration or destruction could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to its reputation. A breach of the Company's cyber/data security measures could have a material adverse effect on the Company's business, operations, financial condition and operating results.

The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, information technology systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation, results of operations, cash flows and financial condition.

Although to date the Company has not experienced any material losses relating to cyberattacks or other information security breaches, there can be no assurance that it will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Any of these factors could have a material adverse effect on the Company's results of operations, cash flows and financial position.

The market value of our shares may fluctuate

The market price of Cielo Shares, as a publicly traded stock, can be affected by many variables not directly related to the corporate performance of the Cielo, including the market in which it is traded, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of Cielo Shares in the future cannot be predicted.

COVID-19 and other outbreaks may further disrupt our operations

As a result of the COVID-19 pandemic, the Company paused all operations of Aldersyde Facility and temporarily laid-off operators while maintaining essential personnel. The operators were brought back to work on August 11, 2020. While the Company was able to re-commence work, the ultimate extent of any continuing impacts of the COVID-19 pandemic on the Company's business, financial condition, results of operations, cash flows and prospects will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain or prevent its further spread, among others. Any of the foregoing events could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, and prospects.

In addition, the continued impact of COVID-19 may have adverse impacts on the Company, including, among others:

- volatility in the global capital markets, which may increase cost of capital and adversely impact access to capital;
- continued impacts on workforces throughout the regions in which COVID-19 is present, which may result in the Company's workforce being unable to work effectively;
- supply chain disruptions.

Future local, regional, national or international outbreaks of contagious diseases, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price of and demand for oil, (and correspondingly, decrease the demand for our fuels which could have a material adverse effect on our business, financial condition, results of operations and cash flows). Additionally, such an outbreak, if uncontrolled, may result in temporary shortages of staff to the extent our work force is impacted, which may have a material adverse effect on our business.

Litigation and legal claims could have an adverse impact on our business

We may be subject to legal proceedings and governmental investigations from time to time related to our business and operations. Lawsuits or claims against us could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Acquisitions entail numerous risks and may disrupt our business or distract management

We consider and evaluate acquisitions of, or significant investments in, complementary assets as part of our business strategy. Acquisitions involve numerous risks, including unanticipated costs and liabilities, and difficulty in integrating the operations and assets of the acquired assets. Any acquisition could have a material adverse effect on our business, financial condition, results of operations and cash flow.

We may incur substantial debt to finance future acquisitions and also may issue equity securities or convertible securities for acquisitions. Debt service requirements could be a burden on our results of operations and financial condition. We would also be required to meet certain conditions to borrow money to fund future acquisitions. Acquisitions could also divert the attention of management and other employees from our day-to-day operations and the development of new business opportunities. Even if we are successful in integrating future acquisitions into our operations, we may not derive the benefits such as operational or administrative synergies we expect from acquisitions, which may result in us committing capital resources and not receiving the expected returns. In addition, we may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets.

Risks related to politics and the economy

Cielo may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes or shifts in political attitude in certain countries may adversely affect Cielo's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on price controls, export controls, income taxes and maintenance of assets. The effect of these factors cannot be accurately predicted.

ADDITIONAL INFORMATION

Additional information related to Cielo, including periodic quarterly reports filed with the Canadian security regulatory authorities, is available on SEDAR at www.sedar.com.