CIELO

Window to a Cleaner World™

CIELO WASTE SOLUTIONS CORP.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended October 31, 2021 and 2020

Cielo Waste Solutions Corp.
Unaudited Condensed Consolidated Statements of Financial Position

(In Canadian Dollars)	Note	October 31, 2021	April 30, 2021
Assets			
Current Assets			
Cash		7,303,010	17,176,212
Accounts receivable		517,566	530,460
Prepaid expenses		900,425	376,500
Inventory		564,417	342,225
		9,285,418	18,425,397
Non-current Assets			
Property, plant and equipment	6	43,862,494	26,623,622
Right-of-use assets	5	505,623	143,236
		44,368,117	26,766,858
Total Assets		**53,653,535**	**45,192,255**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		2,472,486	4,134,553
Deferred revenue and fees		3,750,000	3,750,000
Short-term warrant liability	9	-	10,169,563
Current portion of lease liability		145,634	59,307
Short-term loans	7	11,076,631	-
Current portion of long-term loans	7	-	1,000,000
		17,444,751	19,113,423
Non-current Liabilities			
Royalty payable		889,219	889,219
Lease liability	5	415,562	120,757
Long-term loans	7	60,000	60,000
Convertible debentures	8	-	503,585
		1,364,781	1,573,561
Total Liabilities		**18,809,532**	**20,686,984**
Shareholders' Equity			
Share capital	9	97,736,856	79,672,607
Contributed surplus	9	3,433,010	3,278,486
Deficit		(66,325,863)	(58,445,822)
Total Shareholders' Equity		**34,844,003**	**24,505,271**
Total Liabilities and Shareholders' Equity		**53,653,535**	**45,192,255**

Going Concern (Note 3), Commitments (Note 13), and Subsequent Events (Notes 7, 11)

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

Cielo Waste Solutions Corp.
Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss

(In Canadian Dollars)	Note	Three months ended October 31, 2021	Three months ended October 31, 2020 Restated (Note 14)	Six months ended October 31, 2021	Six months ended October 31, 2020 Restated (Note 14)
Incidental sales		-	-	-	4,200
Cost of sales		-	-	-	(4,200)
Gross profit		**-**	**-**	**-**	**-**
Expenses and other income					
Financing costs	10	851,437	1,155,108	973,050	1,343,916
General and administrative		1,653,244	467,070	3,209,732	1,006,637
Research and development		2,108,547	359,509	3,790,827	502,569
Share based compensation	9	95,465	55,926	190,930	258,094
Depreciation and amortization		102,168	46,155	159,878	92,123
(Gain) on settlement of debt with shares & other		(5,618)	-	(5,618)	-
Fair value change of warrant liability	9	-	877,519	(492,378)	1,034,161
Other (income) expenses		35,992	(32,403)	53,620	(32,403)
Loss before income taxes		(4,841,235)	(2,928,884)	(7,880,041)	(4,205,097)
Income taxes		-	-	-	-
Net and comprehensive loss		**(4,841,235)**	**(2,928,884)**	**(7,880,041)**	**(4,205,097)**
Loss per share					
Basic		(0.01)	(0.01)	(0.01)	(0.02)
Diluted		(0.01)	(0.01)	(0.01)	(0.02)

Restatement of comparative periods (Note 14)

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

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

(In Canadian Dollars)	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2020 (Restated – Note 14)	**20,941,031**	**3,725,559**	**(18,736,848)**	**5,929,742**
Shares issued on debt conversion	1,849,250	476,342	-	2,325,592
Shares issued on prepaid interest and warrants on convertible debenture issuance	1,256,758	1,227,053	-	2,483,811
Shares issued for debt settlement	498,865	79,720	-	578,585
Fair value of finders' warrants	-	122,115	-	122,115
Restricted Share Unit vesting	-	111,852	-	111,852
Share issuance costs	-	(6,626)	-	(6,626)
Share based compensation	-	146,242	-	146,242
Net loss for the period	-	-	(4,205,097)	(4,205,097)
Balance, October 31, 2020	**24,545,904**	**5,882,257**	**(22,941,945)**	**7,486,216**
Balance, April 30, 2021	**79,672,607**	**3,278,486**	**(58,445,822)**	**24,505,271**
Shares issued on debt conversion	4,709,500	-	-	4,709,500
Shares issued for warrant exercise	13,323,085	(1,220,687)	-	12,102,398
Shares issued for option exercise	66,296	(21,796)	-	44,500
Share based compensation	-	190,930	-	190,930
Share issuance costs	(34,632)	-	-	(34,632)
Fair value of bonus warrants issued	-	1,206,077	-	1,206,077
Net loss for the period	-	-	(7,880,041)	(7,880,041)
Balance, October 31, 2021	**97,736,856**	**3,433,010**	**(66,325,863)**	**34,844,003**

Share Capital (Note 9)

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

Cielo Waste Solutions Corp.
Unaudited Condensed Consolidated Statements of Cash Flows

(In Canadian Dollars)	Note	Three months ended October 31, 2021	Three months ended October 31, 2020 Restated (Note 14)	Six months ended October 31, 2021	Six months ended October 31, 2020 Restated (Note 14)
Cash (used in) provided by operating activities:					
Net loss		(4,841,235)	(2,928,884)	(7,880,041)	(4,205,097)
Adjustments for:					
Depreciation and amortization		102,168	46,155	159,878	92,123
(Gain) on settlement of debts with shares & other		(5,618)	-	(5,618)	-
Share based compensation	9	95,465	-	190,930	146,242
Restricted Share Units vesting		-	55,926	-	111,852
Fair value change of warrant liability	9	-	877,519	(492,378)	1,034,161
Other (gain) loss		113,862	-	113,862	-
Financing costs	10	851,436	1,155,108	973,050	1,343,916
Changes in non-cash working capital:					
GST and other receivables		200,095	(44,357)	12,894	(76,209)
Prepaids & deposits		(798,621)	411,017	(641,209)	568,077
Inventory		(121,904)	(14,981)	(323,655)	(11,744)
Deferred revenues & deposits		-	-	-	1,000,000
Accounts payable and accrued liabilities		(2,105,129)	(393,966)	(2,492,155)	(1,475,941)
Cash used in operating activities		**(6,509,481)**	**(836,463)**	**(10,384,442)**	**(1,472,620)**
Cash (used in) provided by financing activities:					
Lease liability		(26,784)	(13,977)	(51,989)	(27,860)
Short-term loans		12,000,000	-	12,000,000	-
Payments on long-term loans		(1,000,000)	-	(1,000,000)	(329)
Interest expense		(183,575)	(309,703)	(201,075)	(494,730)
Financing costs		(622,516)	(193,583)	(622,516)	(310,082)
Convertible debentures issued for cash		1,000,000	2,293,000	4,000,000	3,893,142
Share issuance for warrant exercise	9	506,250	-	2,425,213	-
Share issuance for option exercise	9	-	-	44,500	-
Share issuance costs	9	(30,000)	(4,632)	(34,632)	(6,626)
Shares issuance for debt		-	672,152	-	578,585
Cash provided by financing activities		**11,643,375**	**2,443,257**	**16,559,501**	**3,632,100**
Cash (used in) investing activities:					
Additions of property plant and equipment	6	(12,975,619)	(1,241,732)	(16,873,349)	(2,119,879)
Changes in non-cash working capital:					
Prepaids & deposits		(5,000)	104,901	(5,000)	108,244
Accounts payable and accrued liabilities		1,044,155	(208,745)	830,088	154,411
Cash used in investing activities		**(11,936,464)**	**(1,345,577)**	**(16,048,261)**	**(1,857,224)**
Increase (decrease) in cash		**(6,802,570)**	**261,218**	**(9,873,202)**	**302,256**
Cash and cash equivalents, beginning of period		14,105,580	122,643	17,176,212	81,605
Cash and cash equivalents, end of period		**7,303,010**	**383,861**	**7,303,010**	**383,861**
Supplemental items:					
Cash interest paid		183,575	5,832	201,075	105,951

Restatement of comparative periods (Note 14)

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

1. REPORTING ENTITY

Cielo Waste Solutions Corp. (“Cielo” or the “Company”) was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011. Cielo is a publicly traded company with its shares listed to trade on the TSX Venture Exchange (“TSXV”) under the symbol “CMC” in June 2021, as well as on the OTC Venture Market, under the symbol “CWSFF”. The registered office of the Company is located at 610 – 475 West Georgia Street, Vancouver, BC V6B 4M9. The principal office of the Company is located at Suite #1100, 605 5th Avenue S.W. Calgary AB, T2P 3H5.

Pursuant to an agreement entered into between Cielo and 1888711 Alberta Inc. (“1888 Inc”), dated June 14, 2016, subsequently amended and restated on November 1, 2017, Cielo held an exclusive global license, to complete the development and commercialization of the Technology (as defined in Note 11) (the “License Agreement”). The Technology, which is patented in Canada and the United States, can utilize waste to produce fuel through a thermal catalytic depolymerization process.

On November 22, 2021, Cielo and 1888 Inc executed a preliminary agreement pursuant to which Cielo and 1888 Inc agreed that all rights of 1888 Inc to utilize the Technology and receive payment of Royalty and Refinery Fees (as defined in Note 11) were terminated. In consideration for terminating the License Agreement and transferring the patents and all related intellectual property to Cielo, Cielo agreed to issue ten million (10,000,000) common shares in the capital of Cielo (the “Shares”) to 1888 Inc. On December 3, 2021, upon receiving the approval from TSXV, Cielo and 1888 Inc executed a definitive agreement and successfully closed this transaction including the issuance of ten million (10,000,000) Shares to 1888 Inc. The Shares are subject to a 4-month hold period expiring on April 4, 2022 (Note 11).

On July 29, 2021, the Company incorporated a new subsidiary, Cielo Fort Saskatchewan Corp., to facilitate the acquisition of land and hold the assets for the facility in Fort Saskatchewan, Alberta (Note 6). Subsequent to July 29, 2021, the financial statements include the accounts of the Company and its wholly owned subsidiary.

2. STATEMENT OF COMPLIANCE AND BASIS ACCOUNTING

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” and using the accounting policies outlined by the Company in its annual financial statements for the year ended April 30, 2021. These unaudited condensed consolidated interim financial statements do not include all the information required for the full annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2021. Certain amounts presented in the comparative periods have been reclassified to conform with the current period presentation.

These unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on December 21, 2021.

3. GOING CONCERN

The Company has not yet generated revenue from its planned commercial operations and has accumulated losses of $66,325,863 as at October 31, 2021 and generated losses of $4,841,235 and $7,880,041 for the three and six months ended October, 31, 2021, respectively. In addition, there is a working capital deficit of $8,159,333 at October 31, 2021, which includes a short term loan with a covenant under negotiation (see Note 7). The Company will require additional capital to fund costs relating to research, development and other corporate activities over the next year and beyond, and to fund payments of short-term indebtedness as they become due and otherwise fund the working capital deficiency. 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES AND USE OF JUDGEMENTS AND ESTIMATES

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

5. RIGHT OF USE ASSETS

In September 2021, the Company entered into a lease agreement for an approximate 10,000 square foot office in downtown Calgary. The lease agreement includes a rent-free period of 14 months from September 2021 to October 2022 inclusive. The lease payments will commence November 1, 2022, for five years. The annual base rent increases from $104,000 to $146,202 during the lease term. A right of use asset and lease liability of $359,816 was recognized for the office lease.

(In Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Construction in Progress	Land	Building	Equipment	Computers	Total
Balance, April 30, 2020	15,979,307	755,841	931,499	1,372,207	68,269	19,107,123
Additions	8,146,222	-	-	38,065	23,142	8,207,429
Balance, April 30, 2021	24,125,529	755,841	931,499	1,410,272	91,411	27,314,552
Additions	3,863,529	10,126,335	2,959,392	390,133	15,694	17,355,083
Disposals	-	-	-	-	(66,546)	(66,546)
Balance, October 31, 2021	**27,989,058**	**10,882,176**	**3,890,891**	**1,800,405**	**40,559**	**44,603,089**
Accumulated Amortization						
Balance, April 30, 2020	-	-	107,730	399,542	34,163	541,435
Additions	-	-	32,951	97,743	18,801	149,495
Balance, April 30, 2021	-	-	140,681	497,285	52,964	690,930
Additions	-	-	35,563	57,835	6,520	99,918
Disposals	-	-	-	-	(50,253)	(50,253)
Balance, October 31, 2021	**-**	**-**	**176,244**	**555,120**	**9,231**	**740,595**
Net Book Value						
Balance, April 30, 2021	24,125,529	755,841	790,818	912,987	38,447	26,623,622
Balance, October 31, 2021	**27,989,058**	**10,882,176**	**3,714,647**	**1,245,285**	**31,328**	**43,862,494**

Asset Purchase in Fort Saskatchewan, Alberta

In August 2021, the Company completed the purchase of 60 acres of land and an approximately 32,000 square feet industrial building in Fort Saskatchewan, Alberta for $13,000,000 (the "Asset Purchase"). The purchase price of $13,000,000 was funded by cash on hand of $1,000,000 and a $12,000,000 loan (the "Loan") from First Choice Financial ("FCF") and KV Capital ("KV") (and together with FCF, the "Lenders") (Note 7). The purchase price and additional directly attributable costs were allocated $10,126,335 to the land and $2,959,392 to the building.

During the six months ended October 31, 2021, additions to Construction in Progress include capitalized borrowing costs of $481,734 (six months ended October 31, 2020 - $600,282).

7. SHORT-TERM AND LONG-TERM LOANS

As at	October 31, 2021	April 30, 2021
Secured interest bearing loan, 7%, due April 30, 2022	-	1,000,000
CEBA loan	60,000	60,000
Secured interest bearing loan, 6%, due August 22, 2022	11,076,631	-
Total debt	11,136,631	1,060,000
Less:		
Short-term loans	(11,076,631)	-
Current portion of long-term loans	-	(1,000,000)
Long-term portion of loans	60,000	60,000

(In Canadian dollars)

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

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

In August 2021, the Company entered the Loan with the Lenders. The Loan is subject to 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. In connection with the Loan, the Company also issued 12 million share purchase warrants (Note 9). The proceeds for this financing were first allocated to the Loan based on its estimated fair value of $10.8 million using an estimated fair value interest rate of 17%. The residual value of $1.2 million was allocated to the share purchase warrants.

The Loan is subject to interest payments only and Cielo is entitled to repay the Loan at any time before maturity without penalty, in whole or in part. 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.

The Company’s market capitalization was below $250 million on September 30, 2021, and on additional trading days prior to October 31, 2021. Subsequent to October 31, 2021, the market capitalization of the Company was below $150 million on certain trading days. As a result, KV requested a total loan repayment of $2 million. As of the date of these Financial Statements, Cielo is in the process of negotiating with the Lenders on this special loan covenant and has not made the repayment of $2 million.

8. CONVERTIBLE DEBENTURES

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

	Six months ended October 31, 2021	Year ended April 30, 2021
Opening balance	503,585	6,706,750
Debentures issued during the period	3,478,261	13,941,142
Debentures converted during the period	(3,981,846)	(19,859,880)
Closing balance	-	788,012
Deferred financing costs	-	(284,427)
Convertible debenture liability	-	503,585

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

During the year ended April 30, 2020, the Company issued 512.18 convertible debenture units (the “A Convertible Debenture Units”) for gross proceeds of $5,121,750 (the “A Convertible Debenture Offering”). The A Convertible Debentures Units each consist of one $10,000 unsecured convertible debenture (the “A Debentures”) and 5,000 share purchase warrants. The A Debentures bear interest at a simple rate of 15% per annum, the initial two (2) years of interest prepaid (the “A Prepaid Interest”) on the date of issuance of the A Debentures (the “A Issue Date”) by the issuance of common shares (the “A Prepaid Interest Shares”) at a price of $0.10 per A Prepaid Interest Share. The principal of the A Debentures (the “A Principal”) together with all accrued interest exceeding the A Prepaid Interest (the “A Interest Balance”) will be repaid 48 months from the A Issue Date unless repaid earlier by the Company without penalty or converted by the holder(s) thereof any time after four months and a day following the A Issue Date at a price of $0.06 for the A Principal and $0.10 for the A Interest Balance. As at April 30, 2021, $214,500 of A Debentures remained outstanding. For the six months ended October 31, 2021, the remaining $214,500 of A Debentures were converted into 3,575,000 common shares of the Company. As at October 31, 2021, no A Debentures remained outstanding.

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

On August 3, 2021, the Company completed a non-brokered, convertible debenture financing, and received gross proceeds of $4,000,000 (the “Financing”) of which $521,739 was allocated to equity for the conversion feature. Pursuant to the Financing, the Company issued 4,000 non-interest-bearing, unsecured convertible debentures (the “Debentures”), each issued at $1,000 per Debenture, the principal amount of the Debentures being convertible into common shares at $1.25 per share during the 12-month term of the Debentures. Following the issuance of the Debentures, on September 7, 2021, 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 thereof were subject to a statutory 4-month hold period which expired on December 4, 2021.

(In Canadian dollars)

9. SHARE CAPITAL

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

	Six months ended October 31, 2021		Six months ended October 31, 2020	
Common Shares	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	611,682,938	79,672,607	244,044,047	20,941,031
Issued for debenture conversion	15,662,500	4,709,500	36,017,673	1,849,250
Issued for prepaid interest on convertible debenture	-	-	25,335,915	1,256,758
Issued for debt settlement	-	-	8,455,314	498,865
Issued for warrant exercise	24,339,474	13,323,085	-	-
Issued for option exercise	445,000	66,296	-	-
Share issuance cost	-	(34,632)	-	-
Balance, end of period	**652,129,912**	**97,736,856**	**313,852,949**	**24,545,904**

Debenture conversions

During the three months ended October 31, 2021, the Company converted debentures of $4,000,000, into 3,200,000 common shares of the Company. During the six months ended October 31, 2021, the Company converted debentures of $4,709,500, into 15,662,500 common shares of the Company. The carrying value of the debentures were reclassified to equity on the conversion dates.

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

Warrants

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

	Number of Warrants	**Weighted average exercise price**	**Reserve amount**
Balance April 30, 2020	59,208,085	0.16	3,722,892
Issued in connection with Convertible debenture	32,678,565	0.07	1,349,168
Issued in connection with private placements	27,627,080	0.12	121,318
Issued in connection with BJK Adjustment	18,854,354	-	-
Issued in connection with prepaid fuel sale	3,750,000	0.14	1,185,678
Exercised	(117,786,925)	0.14	(5,158,369)
Balance April 30, 2021	24,331,159	0.10	1,220,687
Issued in connection with BJK Adjustment	8,315	0.09	-
Issued in connection with loan	12,000,000	1.00	1,206,077
Exercised	(24,339,474)	0.09	(1,220,687)
Balance October 31, 2021	12,000,000	1.00	1,206,077

(In Canadian dollars)

In August 2021, the Company entered the Loan with the Lenders (Note 7). The net proceeds of the Loan were used to fund the Asset Purchase (Note 6). 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.

The fair value of the loan was measured and the residual amount was allocated to the warrants. As the Bonus Warrants were issued in connection with the Loan, the proceeds were initially allocated to the fair value of the debt component of the financing with the residual value of $1.2 million allocated to the Bonus Warrants.

In February 2021, the Company received total proceeds of $1,500,000 in connection with a prepaid sale of 900,000 litres of diesel at $1.67 per litre. In connection with this transaction, the Company paid a finder's commission of 5% of the proceeds and 3,750,000 share purchase warrants entitling the holder to purchase one common share per warrant at an exercise price of $0.135 per share expiring 2 years from the date of issuance. In September 2021, the warrants were exercised and the Company issued 3,750,000 common shares upon the exercise of warrants at $0.135 per share.

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

Exercise Price	Number of Outstanding and Exercisable	Weighted Remaining life (Years)	Weighted average exercise price
$1.00	12,000,000	2.75	$1.00

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

Changes in the warrant liabilities are summarized below:

	Six months ended October 31, 2021	Year-ended April 30, 2021
Opening balance	10,169,563	147,681
Exercise of warrants	(9,677,185)	(18,518,554)
Change in fair value of warrant lability	(492,378)	28,540,436
Warrant liability, ending	-	10,169,563

Stock Options

The Company amended its stock option plan (the "Stock Option Plan") effective June 18, 2021. Shareholders voted in favour of the plan at the Annual General and Special Meeting on October 21, 2021. Under the Stock Option Plan, a maximum of 10% of the Company's issued and outstanding shares as at the date of grant may be granted (excluding any outstanding options). Under the Stock Option Plan, the Company may grant options to its directors, officers, employees, and consultants. The Stock Option Plan replaced the Company's previous stock option plan (the "Predecessor Stock Option Plan").

(In Canadian dollars)

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

Continuity of the Company's option is as follows:

	Number	**Weighted Average exercise Price**
Balance April 30, 2020	3,740,000	0.25
Issued	5,950,000	0.20
Canceled	(20,000)	0.25
Expired	(3,845,000)	0.25
Exercised	(4,430,000)	0.10
Balance April 30, 2021	1,395,000	0.51
Exercised	(445,000)	0.10
Balance October 31, 2021	950,000	0.71

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

Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining life(years)**	**Weighted Average Exercise Price**	**Number Exercisable**
$0.10	450,000	1.59	$0.10	450,000
$1.25	500,000	1.41	$1.25	375,000
	950,000	1.50	$0.71	825,000

Share-based compensation

	Three months ended October 31,		**Six months ended October 31,**	
	2021	2020	**2021**	2020
Stock options	95,465	-	190,930	146,242
Restricted share units	-	55,926	-	111,852
Total share-based compensation	95,465	55,926	190,930	258,094

Per share amounts

Basic and diluted loss per share have been calculated based on the weighted average number of shares outstanding for the three months ended October 31, 2021 of 649,259,260 (2020 – 274,885,669).

Basic and diluted loss per share have been calculated based on the weighted average number of shares outstanding for the six months ended October 31, 2021 of 643,227,365 (2020 – 274,885,669).

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

(In Canadian dollars)

10. FINANCING COSTS

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	**2021**	2020
Amortization of deferred financing costs	-	146,776	210,678	396,203
Interest on loans	1,084,038	1,001,803	1,221,741	1,511,880
Accretion of debentures	-	-	-	22,788
Accretion of lease liability	17,192	6,529	22,365	13,327
Capitalized interest	(249,793)	-	(481,734)	(600,282)
Total	**851,437**	**1,155,108**	**973,050**	**1,343,916**

11. RELATED PARTY TRANSACTIONS

1888 Inc

During the three and six months ended October 31, 2021, the President, CEO and Director of 1888 Inc, Don Allan, was the President and Director of Cielo. On November 10, 2021, Don Allan resigned from his positions of President, CEO and Director of 1888 Inc, while he continues to be a beneficial minority shareholder of 1888 Inc.

For the three and six months ended October 31, 2021, Cielo charged 1888 Inc total expenses of $6,300 and $13,255 (2020 - $15,988, and $33,220), 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 October 31, 2021, the amount receivable from 1888 Inc was $199,471 (April 30, 2021 - $186,216).

Pursuant to the License Agreement:

- 1888 Inc and Cielo agreed to the payment of Royalty and Refinery Fees (as defined below) by Cielo to 1888 Inc in exchange for 1888 Inc providing resources for the development of technology to convert and transform waste to fuel (the "Technology")
- 1888 Inc provided and Cielo accessed capital for the development of the Technology owned by Cielo
- Cielo provided a license to 1888 Inc to develop the Technology, which included the consent from Cielo for 1888 Inc to develop, improve, and patent the Technology, and 1888 Inc obtained patents concerning the Technology
- Cielo had the right to develop and improve the Technology and did continue and will continue to develop the Technology to commercialization and beyond
- Upon commercialization of the Technology, Cielo was to pay 1888 Inc a royalty of $0.05 on every liter of fuel produced by Cielo (the "Royalty") as well as an additional sum for each refinery beyond the initial refinery constructed by Cielo (the "Refinery Fees"); and
- Certain rights for the termination of the Royalty and Refinery Fees were provided to Cielo.

On November 22, 2021, Cielo and 1888 Inc executed a preliminary agreement pursuant to which Cielo and 1888 Inc agreed that all rights of 1888 Inc to utilize the Technology and receive payment of Royalty and Refinery Fees were terminated. In consideration for terminating the License Agreement and transferring the patents and all related intellectual property to Cielo, Cielo agreed to issue ten million (10,000,000) Shares to 1888 Inc. On December 3, 2021, upon receiving the approval from TSXV, Cielo and 1888 Inc executed a definitive agreement and successfully closed this transaction including the issuance of ten million (10,000,000) Shares to 1888 Inc. The Shares are subject to a 4-month hold period expiring on April 4, 2022.

Renewable U Energy Inc. ("Renewable U")

In September 2021, the Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations, who were also directors and shareholders of Renewable U, both resigned from their positions with Cielo in order to focus their efforts on Renewable U, a privately-owned Alberta corporation. For the three and six months ended October 31, 2021, the CEO, director and 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 and six months ended October 31, 2021, the Company charged Renewable U management fees and recovery of expenses of $42,700, and $87,667, respectively, and made a credit adjustment of $56,463 to the recovery of expenses related to fiscal Q4 2021 in fiscal Q1 2022. The management fees were recorded as other expenses (income) in the statements of loss and comprehensive loss. As at October 31, 2021, the amount receivable from Renewable U was $67,123 (April 30, 2021 - $97,194).

Brand U Agency Inc. ("Brand U")

On November 1, 2019, Cielo entered into a service agreement with Brand U, whereby Brand U provided marketing service to Cielo, in exchange for a service fee.

In connection with the marketing service agreement, Brand U charged Cielo service fees of $28,060 and $94,597 (2020- $47,250 and $95,193) respectively, for the three and six months ended October 31, 2021. As at October 31, 2021, the amount payable to Brand U was $22,050 (April 30, 2021 - $21,644).

In September 2021, 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, both resigned from their positions with Cielo. On October 25, 2021, the Company terminated the service agreement with Brand U.

12. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. In determining the fair value measurement of the Company's financial instruments, the related inputs used in measuring fair value are prioritized according to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable
Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing

The fair value of the warrant liability is considered a level 3 valuation to the use of unobservable inputs (Note 9).

(In Canadian dollars)

Risk Management

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

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

- Liquidity risk
- Market risk
- Credit risk

Liquidity Risk

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

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

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

The table below presents a maturity analysis of the Company's financial liabilities on the expected cash flows from October 31, 2021 to the contractual maturity date. The amounts are equivalent to the following contractual undiscounted cashflows.

	2022	2023	After 2023
Accounts payable and accrued liabilities	2,472,486	-	-
Royalty payable	889,219	-	-
Short-term and long-term loans	12,000,000	60,000	-
Lease liability	73,406	124,460	666,110
Total	15,435,111	184,460	666,110

As at October 31, 2021, the Company had cash balance of $7,303,010 and working capital deficit of $8,159,333. Management is considering different alternatives to secure adequate financing to meet the Company's longer term cash requirement for commercializing its operations and developing new facilities. See Note 3 for additional information.

(In Canadian dollars)

Market Risk

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

Interest Rate Risk

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

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on transactions that are denominated in a currency other than the functional currency. As at October 31, 2021, the Company had US dollar denominated accounts payable of $7,264 USD. The Company's exposure to currency risk is not significant.

Credit Risk

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

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

13. COMMITMENTS AND CONTINGENCIES

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

	2022	**2023**	**2024 +**	**Total**
Lease obligations	73,406	124,460	666,110	863,976
General and administrative contracts	11,522	5,820	-	17,342
Other	60,000	39,230	-	99,230
Total contractual obligations	144,928	169,510	666,110	980,548

14. RESTATEMENT OF COMPARATIVE PERIOD FINANCIAL STATEMENTS

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

(In Canadian dollars)

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

b) During the year ended April 30, 2018, the Company completed a $3.5 million financing arrangement with BJK, 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 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 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.

	For the three months ended October 31, 2020			**For the six months ended October 31, 2020**		
Financial Statement Caption	**Amount previously reported**	**Amount restated**	**Change**	**Amount previously reported**	**Amount restated**	**Change**
Financing costs	560,734	1,155,108	594,374	1,104,596	1,343,916	239,320
Loss on settlement of debt with shares	282,447	-	(282,447)	471,255	-	(471,255)
Fair value change of warrant liability	-	877,519	877,519	-	1,034,161	1,034,161
Net and comprehensive loss	(1,739,438)	(2,928,884)	(1,189,446)	(3,402,871)	(4,205,097)	(802,226)
Loss per share	(0.01)	(0.01)	(0.00)	(0.01)	(0.02)	(0.01)