

Q2 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights

for the Three and Six Months Ended October 31, 2022



CIELO

MESSAGE TO SHAREHOLDERS



Ryan Jackson
Chief Executive Officer

" We continue to position Cielo as a leading waste-to-fuel company whose economically sustainable technology minimizes environmental impacts on our planet."

Dear Shareholders,

It is my pleasure to present to you the Q2 Management Discussion and Analysis – Quarterly Highlights (MD&A) for Cielo. You might notice that this quarter we are unveiling a new and more reader friendly looking document.

We continue to position Cielo as a leading waste-to-fuel company whose economically sustainable technology minimizes environmental impacts on our planet. With the soon to be commissioned Research and Development facility in Aldersyde informing this leadership, we are more confident than ever in achieving this goal.

Achieving Milestones

Cielo has been working towards its ultimate objective of commercializing our technology for a long time. We understand that we must execute on our plan of commercialization of a full-scale facility for Cielo to finally become the company that we all envisioned that it would be.

Everyone at Cielo takes our responsibility to the shareholder and our customers and other stakeholders very seriously. What we also understand is that it takes an extraordinary amount of effort by everyone working at and with Cielo for it to be successful. Since Jasdeep and I took on our management roles with Cielo in June of 2022, we have assembled a team that we believe will not only deliver on this effort but also the desired results. My picture may be at the top of this page, but it is everyone's tireless efforts that I believe has Cielo positioned for future success.

Conclusion

The following pages will provide you with some information on our recent progress on our road to commercialization. What we have learned through this journey has been invaluable and we believe Cielo is better for it. To paraphrase a Robert Frost quote, "we took a road less travelled to arrive where we are today, and that has made all the difference."



Chief Executive Officer Cielo Waste Solutions

1. INTRODUCTION

The following Management's Discussion and Analysis – Quarterly Highlights ("MD&A") of financial position and results of operations for Cielo Waste Solutions Corp. ("Cielo" or the "Company"), dated December 8, 2022 should be read in conjunction with the cautionary statement regarding forward-looking information below, as well as the unaudited condensed consolidated interim financial statements and notes for the three and six months ended October 31, 2022 and 2021, and the audited consolidated financial statements and notes for the years ended April 30, 2022 and 2021. The audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 December 8, 2022.

Certain statements contained in this MD&A are forward-looking information within the meaning of applicable Canadian securities laws relating to the Company. Please refer to the sections of this MD&A regarding the risks associated with "Forward-looking Statements" and the section entitled "Risk Factors" in the Company's annual audited financial statements and management's discussion and analysis (the "Annual MD&A"), for the year ended April 30, 2022, available on SEDAR at www.sedar.com for a description of these risk factors.

Cielo is a publicly traded company with its shares listed to trade on the TSX Venture Exchange ("TSXV") under the symbol "CMC", on the Frankfurt Exchange ("DAX")J under the symbol "C36", as well as on the OTCQB Venture Market, under the symbol "CWSFF". Cielo was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011.

Additional Information

Additional information and disclosure relating to the Company, can be found on the Company's website at <https://cielows.com/> and under the Company's profile on the SEDAR website at www.sedar.com. Information contained in or otherwise accessible through the Company's website does not form part of this MD&A.

2. 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 information 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 information 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 information in this MD&A is qualified by these cautionary statements.

This MD&A contains forward-looking information that is subject to current and future economic risk, the Company's ability to fund its work through equity or financings, market conditions, and government and regulatory constraints. The forward looking information in this MD&A includes, but is not limited to:

Cielo Waste Solutions

Management's Discussion and Analysis – Quarterly Highlights

For the Three and Six Months Ended October 31, 2022



Forward-looking statements	Assumptions	Risk factors
<p>Cielo's ability to meet its working capital needs at the current level.</p> <p>Cielo expects to incur further losses in the development of its business.</p>	<p>The operating activities of Cielo for the twelve-month period ending April 30, 2023, and the costs associated therewith, will be consistent with Cielo's current expectations; debt and equity markets, exchange and interest rates and other applicable economic conditions are favourable to Cielo.</p>	<p>Changes in debt and equity markets; timing and availability of external financing on acceptable terms; increases in costs; regulatory compliance and changes in regulatory compliance and other local legislation and regulation; interest rate and exchange rate fluctuations; changes in economic conditions; ongoing uncertainties relating to the COVID-19 virus.</p>
<p>Cielo's belief that waste-to-fuel is a commercially viable and integral part of the future energy sector.</p>	<p>That minimizing environmental impact through technology, while meeting energy market needs is, and will continue to be, a world wide focus, and that Cielo will be an integral part of this trend through ongoing research, and the future commercialization of its operations.</p>	<p>Costs and timing for Company milestones in the current economic environment; the ability to fund the milestones; testing to occur and types of wastes to be used as feedstocks; market viability/timing of fuels.</p> <p>Should Cielo not raise sufficient capital, it may cease to be a reporting issuer. See Going Concern comments.</p>
<p>The timing and purpose for the commissioning of Cielo's R&D Facility and the design of its first full scale commercial facility, the anticipated data and results from, and uses for, the R&D Facility (including the impact on the design of the Full-Scale Commercial Facility), and the intended use of the R&D Facility following commissioning, and that Cielo will be successful in its plans to complete its R&D Facility, and utilize it for R&D activities in regard to constructing similar full-scale facilities and produce commercial products.</p>	<p>Cielo will collect process data through the operation of the R&D facility, optimize the design and allow for scale up to commercial facility or facilities.</p> <p>The data that can be obtained from the R&D Facility will be capable of improving the design and function of the Full-Scale Commercial Facility.</p>	<p>The state of the legislative and regulatory regimes, both domestic and foreign, in which the Company conducts business and may conduct business in the future; Cielo's ability to obtain and retain the licenses, permits and other regulatory approvals and personnel it requires to undertake its business, including, but not limited to, research and development activities.</p>
<p>Cielo's ability, upon commercialization, to expand domestically and internationally.</p>	<p>Ongoing worldwide desire to better the environment; that Cielo will continue investing in infrastructure to support growth, including obtaining and retaining key personnel; that funding and support will continue through strategic partnerships and funding.</p>	<p>The impact of competition (existing and late entrants); the changes and trends in the Company's industry or the global economy; and the changes in laws, rules, regulations, and global standards.</p>

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” in the Annual MD&A and 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. Forward-looking information is provided in this MD&A for the purpose of giving information about management’s current expectations and plans and allowing investors to get a better understanding of our operating environment. Readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

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 December 8, 2022. All forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

3. CORE BUSINESS OVERVIEW

Cielo is focused on becoming a leading waste-to-fuel company whose economically sustainable technology minimizes environmental impacts. Cielo has patented our process that can convert waste feedstocks, including organic material and wood derivative waste, to fuel. Upon completion of necessary research and development activity, Cielo’s business model is anticipated to be centred on the construction of additional processing facilities with an ultimate objective to generate value by converting waste to fuel, while supporting the global sustainable energy transition.

The Company’s current process for converting waste to fuel is referred to as thermal catalytic depolymerization (“TCD”).

Management believes that successful commercialization of Cielo’s technology requires finalizing the testing of various feedstock. Cielo requires continuous innovation with respect to intended feedstock and product/by-products. Cielo will continue ongoing testing of various feedstock as it continues to focus on the design of its first full scale facility. Cielo intends to generate revenue from charging tipping (or gate) fees for waste disposal services for clients who provide appropriate feedstock, and the sale of products.

4. COMPANY Q2 HIGHLIGHTS

During the quarter, Cielo realized the following goals:

- **Completed payment of \$1.1 million** for the fabrication of the R&D, Facility which will be commissioned by April, 2023;
- **Commenced commercial lease** for the building and a portion of Cielo’s property in Fort Saskatchewan, Alberta on August 1st, 2022, affording Cielo monthly rents; and

- **Partial payment of \$2.0 million** of a mortgage loan on the Company's property in Fort Saskatchewan by issuing approximately 26.9 million common shares and reducing the loan's principal balance to \$4.5 million.

5. OUTLOOK AND MILESTONES

The primary business objective Cielo expects to accomplish is focused on the initiation in 2023 of the design of the Full-Scale Facility based on testing to be undertaken at the R&D Facility. Subsequent to the commissioning of the R&D Facility, the Company intends to continue to utilize the R&D Facility to generate the data required to design and define the economics of a commercial facility.

Below is a diagram setting out milestones expected to be achieved by the Company and their anticipated costs and timelines, dependent on regulatory approval:



¹ Subject to Alberta Environment and Parks (AEP) approval

Facility Updates

Research and Development Facility ("R&D Facility")

The R&D Facility, a scaled-down facility intended to serve as a blueprint for a future full-scale facility, is expected to give Cielo the flexibility to experiment and greatly enhance the quality of the process. The R&D Facility is expected to facilitate the design of the full-scale facility with predictable performance, capital cost expectations and operating cost metrics. In addition, the R&D Facility is expected to perform technical assessments at optimal operating conditions, and aid in determining economic viability for various feedstocks. The initial focus of feedstock testing is pen shavings and railway ties. Additional testing for rubber and plastic feedstocks may require modifications to the R&D Facility (and consequently additional AEP approval).

In Q2 2023 \$1.1M was paid for the facility. To date approximately \$3.1 million has been paid for the construction of the R&D Facility.

Aldersyde Facility

In August, 2022, Cielo decommissioned operations at its Aldersyde Facility. Management is able to reuse certain ancillary systems, which will be incorporated into the R&D Facility.

The Aldersyde Facility demonstrated the ability to convert wood derivative waste materials into a product which can be sold 'as is' or further refined. Cielo obtained additional data from the Aldersyde Facility which has served to identify the limiting conditions that have historically prevented the Company from achieving steady-state production. This data has benefited the design and fabrication of the R&D Facility and future full-scale facilities.

Fort Saskatchewan Property - Value Maximization Efforts

Cielo will continue to assess various alternatives for its Fort Saskatchewan Property (“FS Property”), and has taken steps intended to maximize its value, including leasing the building and a portion of the lands to secure steady rental income. The Lease is for a term of five (5) years, beginning as of August 1, 2022, at an annual base rent of \$0.6 million, plus 90% of the occupancy costs (such as property taxes, insurance, and building maintenance). The Tenant may extend the term of the Lease, upon mutual agreement, for an additional period of five (5) years. The Tenant has the right to terminate the Lease on April 30, 2025 upon three (3) months’ notice.

6. OVERALL PERFORMANCE

Financial Overview

All amounts \$000’s

As at (Thousands of dollars)	October 31, 2022	April 30, 2022
Total assets	32,535	53,531
Total liabilities	17,784	19,932
Total non-current liabilities	10,548	16,959
Working capital	(1,794)	1,164

Periods ended October 31 (Thousands of dollars, except per share amounts)	Three months ended		Six months ended	
	2022	2021	2022	2021
Financing costs	583	851	1,218	973
General and administrative	903	1,653	1,884	3,210
Research and development	414	2,109	964	3,791
Net loss per share – basic & diluted	(0.003)	(0.007)	(0.039)	(0.012)

For the three months ended October 31, 2022, the Company had a net loss of \$2.1 million which consisted primarily of (i) general and administrative of \$0.9 million (ii) research & development costs of \$0.4 million; and (iii) finance costs of \$0.58 million. Net loss for the period is consistent with prior periods as expected, except for the following:

Net loss for the six months ended October 31, 2022 was \$29.8 million, \$22 million higher than the period ended October 31, 2021, primarily due to recognition of an impairment loss on the property, plant and equipment at Aldersyde of \$25.4 million resulting from the decommissioning of the Aldersyde Facility, offset by a decrease in general and administrative expenditures of \$1.3 million as the Company incurred costs relating to its corporate development in the prior year; a decrease in research and development expenditures of \$2.8 million as the Company reduced activity at Aldersyde and ultimately decommissioned Aldersyde operations.

During the quarter ended October 31, 2022, Cielo had negative operating cash flow, consistent with prior periods, and as expected in a pre-revenue business. Cielo expects cash flow from operations to be negative during the product development stages of the Company.

The tables below provide further insight into Cielo's primary expenses:

Finance Costs

Periods ended October 31 (Thousands of dollars)	Three months ended		Six months ended	
	2022	2021	2022	2021
Amortization of deferred financing costs	-	-	-	211
Interest on loans	563	1,084	1,177	1,222
Accretion of lease liability	20	17	41	22
Capitalized interest	-	(250)	-	(482)
Total	583	851	1,218	973

Financing costs increased approximately \$0.4 million for the six month period and decreased \$0.3 million for the 3 month period, primarily due to the Company not capitalizing borrowing costs on qualifying assets as the construction in progress ceased at the Aldersyde Facility, offset by lessened interest expense as debt decreased from the comparative period.

General & Administrative

Periods ended October 31 (Thousands of dollars)	Three months ended		Six months ended	
	2022	2021	2022	2021
Professional fees	511	825	692	1,540
Personnel	113	571	672	1,119
Property tax and insurance	169	133	336	299
Office and administrative	110	124	184	252
Total	903	1,653	1,884	3,210

General & Administrative decreased \$1.4 million (6 month period) and \$0.6 million (3 month period) from their comparative periods due to reduced spending in most expenditures in the category.

Research & Development

Periods ended October 31 (Thousands of dollars)	Three months ended		Six months ended	
	2022	2021	2022	2021
Operating expenses	194	1,463	458	2,509
Personnel	220	646	506	1,282
Total	414	2,109	964	3,791

Research & Development decreased significantly from comparative period, primarily due to Cielo's focus on design and fabrication of the R&D Facility.

7. LIQUIDITY AND FINANCIAL CONDITION

Net cash used in operating activities was \$1.4 million for the quarter ended October 31, 2022. The cash used in operating activities was used to fund:

- general and administrative costs,
- research and development expenditures,
- and to satisfy our amounts payable obligations.

Net cash used in investing activities was \$1.0 million for the three months ended October 31, 2022, including Construction in Progress for the R&D Facility of \$1.1 million, for the six month period \$4.2 million was used for investing activities.

Cash provided from financing activities for the six-months ended October 31, 2022 was \$8.7 million, primarily due to the public offering which realized \$9.8 million (less costs).

Total assets decreased by \$21.0 million as of October 31, 2022 compared to April 30, 2022, primarily due to the Aldersyde Facility impairment of \$22.4 million recognized in Q1 2023, offset by an increase in cash, and accounts receivable.

Total liabilities decreased by \$2.4 million as of October 31, 2022 compared to April 30, 2022 due to the decrease in accounts payables of \$1.2 million, which was a result of decreasing overall general and administrative expenses.

At October 31, 2022, the Company had a net working capital deficit of approximately \$1.8 million (April 30th, 2022 working capital of \$1.2 million). Cash decreased during the three months ended October 31, 2022 primarily due to net cash used in operating activities of \$1.4 million and cash used in investment activities of \$1 million.

Going Concern Uncertainty

Cielo has not yet generated revenue from its planned commercial operations and has accumulated losses of \$102.7 million as at October 31, 2022 and generated losses of \$2.1 million and \$29.7 million for the three and six months, respectively, ended October 31, 2022. Cielo has a working capital deficit (defined as total current assets less total current liabilities) of \$1.8 million at October 31, 2022.

Cielo 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 possible working capital deficiency. The Company will continue to explore alternatives to generate additional financing, which may include raising additional equity and/or debt or entering into strategic partnerships or other agreements; 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.

Off-Balance Sheet Arrangements

As at October 31, 2022, Cielo did not have any off-balance sheet arrangements in place that would materially impact its financial position or results of operations.

8. Related Party Transactions

Renewable U Energy Inc. ("Renewable U")

Ryan Jackson, CEO and Director of Cielo, was formerly a Director, CEO and shareholder of Renewable U. In June, 2022 upon appointment as CEO of Cielo, Mr. Jackson resigned his positions as CEO and Director of Renewable U, but remains a beneficial shareholder.

Cielo has 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 by August, 2023, and the deferred fees have been recognized as a current liability.

There were no transactions with Renewable U during the three and six month periods ended October 31, 2022.

9. Significant Accounting Policies and Critical Accounting Estimates

The preparation of the unaudited condensed consolidated interim financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting, using accounting policies consistent with IFRS requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income, and expenses. Estimates and judgments are evaluated each reporting period and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and assumptions are subject to inherent risk of uncertainty and actual results may differ from these estimates and assumptions, please refer to Note 4 in the audited consolidated financial statements for the years ended April 30, 2022 and 2021; and Note 4 in the unaudited condensed consolidated financial statements for the periods ended October 31, 2022 and 2021. Significant estimates are used for, but not limited to, the measurement of the fair value less costs of disposal for the impairment valuation.

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 condensed consolidated interim financial statements for the three and six month periods ended October 31, 2022.

10. Risk Factors

An investment in the securities of the Cielo involves numerous and significant risks. Investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk Factors" in the Company's annual audited financial statement and MD&A for the year ended April 30, 2022, available on SEDAR at www.sedar.com for a description of these risk factors. There have been no material changes to the Company's risk factors since the date thereof.

11. Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the unaudited interim condensed consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements, and (ii) the unaudited interim condensed consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company uses the Venture Issuer Basic Certificate, which does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

1. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
2. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS). The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.



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