CIELO

Fueling the Sustainable Energy Transition

CIELO WASTE SOLUTIONS CORP.

Unaudited Condensed Consolidated Financial Statements

For the Periods Ended January 31, 2023 and 2022
and the Year Ended April 30, 2022

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Financial Position

All amounts Canadian $000's, except share and per share amounts

As at	**Note**	**January 31, 2023**	April 30, 2022
Assets			
Current Assets			
Cash & restricted cash		3,168	2,681
Accounts receivable		143	118
Prepaid expenses		594	945
Inventory		392	394
		4,297	4,138
Non-current Assets			
Right-of-use assets		352	453
Property, plant and equipment	5	25,419	46,938
Intangible assets	5	1,915	2,002
		27,686	49,393
Total Assets		**31,983**	**53,531**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		2,004	1,952
Royalty payable	6	889	889
Deferred fees	10	2,250	-
Current portion of lease liability		108	133
Current portion of long term loans	7, 8 & 14	4,279	-
		9,530	2,974
Non-current Liabilities			
Lease liability		412	430
Deferred fees	10	-	2,250
Long-term loans	7, 8 & 14	9,473	14,278
		9,985	16,958
Total Liabilities		**19,415**	**19,932**
Shareholders' Equity			
Share capital	8	107,709	99,769
Contributed surplus	8	9,827	6,720
Deficit		(104,968)	(72,890)
Total Shareholders' Equity		**12,568**	**33,599**
Total Liabilities and Shareholders' Equity		**31,983**	**53,531**

Going Concern (Note 3), Commitments (Note 12)

Approved on behalf of the Board:

/s/ "•" /s/ "•"

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss

All amounts Canadian $000's, except share and per share amounts

		Three months ended January 31,		Nine months ended January 31,	
$000's, except per share amounts	**Note**	**2023**	2022	**2023**	2022
Expenses and other income					
Financing costs	9	620	249	1,838	1,222
General and administrative		1,137	1,944	3,021	5,153
Research and development		442	777	1,407	4,568
Share based compensation	8	143	1,208	270	1,399
Depreciation and amortization		132	142	403	302
Impairment of property, plant and equipment	5	-	-	25,366	-
Loss (Gain) on settlement of debt with shares	7	-	-	90	(6)
Fair value change of warrant liability		-	-	-	(492)
Other (income) expenses	13	(165)	49	(318)	102
Net and comprehensive loss		**(2,309)**	(4,369)	**(32,077)**	(12,248)
Loss per share					
Basic	*8*	*(0.003)*	*(0.007)*	*(0.042)*	*(0.019)*
Diluted	*8*	*(0.003)*	*(0.007)*	*(0.042)*	*(0.019)*

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

All amounts Canadian $000's, except share and per share amounts

	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2021	**79,673**	**3,278**	**(58,446)**	**24,505**
Shares issued on debt conversion	4,710	-	-	4,710
Shares issued for purchase of IP	2,050			2,050
Shares issued for warrant exercise	13,323	(1,221)	-	12,102
Shares issued for option exercise	92	(27)	-	65
Share based compensation	-	1,399	-	1,399
Share issuance costs	(36)	-	-	(36)
Fair value of bonus warrants issued	-	1,206	-	1,206
Net and comprehensive loss for the period	-	-	(12,248)	(12,248)
Balance, January 31, 2022	**99,812**	**4,635**	**(70,694)**	**33,753**
Balance, April 30, 2022	**99,769**	**6,720**	**(72,890)**	**33,599**
Shares issued on public offering	9,775	-	-	9,775
Fair value of warrants issued	(2,654)	2,836	-	182
Shares issued for warrant exercise	27	-	-	27
Fair value of shares issued for debt	1,889	-	-	1,889
Share based compensation	-	270	-	270
Share issuance costs	(1,097)	-	-	(1,097)
Net and comprehensive loss for the period	-	-	(32,077)	(32,077)
Balance, January 31, 2023	**107,709**	**9,826**	**(105,334)**	**12,568**

Cielo Waste Solutions Corp.

Unaudited Condensed Consolidated Statements of Cash Flows

All amounts Canadian $000's, except share and per share amounts

		Three months ended January 31		Nine months ended January 31	
		2023	2022	**2023**	2022
Net loss		(2,309)	(4,368)	(32,077)	(12,248)
Adjustments for non cash items:			-		
Depreciation and amortization		132	142	403	302
Impairment of property, plant & equipment		-	-	25,366	-
Loss (Gain) on settlement of debts with .		-	-	90	(6)
Share based compensation	8	143	1,208	270	1,399
Fair value change of warrant liability		-	-	-	(492)
Other (gain) loss		-	(106)	-	8
Financing costs	9	1,059	249	3,304	1,222
		(975)	(2,875)	(2,644)	(9,815)
Changes in working capital:					
Accounts receivables and accrued		278	56	(25)	69
Prepaid expenses		384	141	473	(500)
Inventory		17	93	3	(231)
Accounts payable and accrued		(146)	512	(2,541)	(1,980)
Cash used in operating activities		**(442)**	(2,073)	**(4,734)**	(12,457)
Cash (used in) provided by financing activities:					
Lease liability		(34)	(45)	(89)	(97)
Long term loan - advances		-	-		12,000
Long term loan - repayments		(30)	-	(30)	(1,000)
Interest paid		(69)	(180)	(94)	(381)
Financing fees		(80)	(20)	(148)	(642)
Convertible debentures	8	-		-	4,000
Shares issued in public offering	8	-		9,775	-
Share issuance for warrant exercise	8	-		27	2,425
Share issuance for option exercise	8	-	20	-	65
Share issuance costs	8	(18)	(1)	(915)	(36)
Cash provided or (used) by financing activities		**(231)**	(226)	**8,526**	16,334
Cash used in investing activities:					
Additions of property plant and equipment	5	(724)	(1,003)	(4,062)	(17,877)
Changes in working capital:					
Prepaid expenses		-	10	-	5
Accounts payable and accrued liabilities		792	(1,486)	757	(656)
Cash provided or (used) in investing activities		**68**	(2,479)	**(3,305)**	(18,528)
Increase (decrease) in cash		**(605)**	(4,778)	**487**	(14,651)
Cash and cash equivalents, beginning of period		3,773	7,303	2,681	17,176
Cash and restricted cash, end of period		**3,168**	2,525	**3,168**	2,525
Supplemental items:					
Cash interest paid		***69***	*180*	***94***	*381*

The accompanying Notes to Financial Statements 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", as well as on the OTC Venture Market, under the symbol "CWSFF". The registered office of the Company is located at 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2Z7. The principal office of the Company is located at Suite #1100, 605 5^{th} Avenue S.W. Calgary AB, T2P 3H5.

On July 29, 2021, the Company incorporated a wholly owned subsidiary, Cielo Fort Saskatchewan Corp., to acquire the land and hold the assets for a facility in Fort Saskatchewan, Alberta. 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, 2022. 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, 2022.

These unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 14, 2023.

3. GOING CONCERN

The Company has not yet generated revenue from its planned commercial operations and has accumulated losses of $105 million as at January 31, 2023 and generated a loss of $32.1 million for the nine months ended January 31, 2023. The Company has a working capital deficit (defined as total current assets less total current liabilities) of $5.2 million as at January 31, 2023. 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 working capital requirements. 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.

These consolidated financial statements have been prepared on a going concern basis, 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 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 audited consolidated financial statements for the year ended April 30, 2022. 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 audited consolidated financial statements for the year ended April 30, 2022.

All amounts Canadian $000's, except share and per share amounts

5. LONG LIVED ASSETS

Property, Plant and Equipment

Cost	Construction in Progress	Land	Building	Equipment	Computers	Total
Balance, April 30, 2021	24,126	756	932	1,410	91	27,314
Additions	7,008	10,167	2,994	349	61	20,580
Disposals	-	-	-	-	(66)	(66)
Balance, April 30, 2022	31,134	10,923	3,926	1,759	86	47,828
Additions	4,062	-	-	-	-	4,062
Balance, January 31, 2023	**35,196**	**10,923**	**3,926**	**1,759**	**86**	**51,890**
Accumulated Amortization						
Balance, April 30, 2021	-	-	141	497	53	691
Additions	-	-	110	115	27	252
Disposals	-	-	-		(53)	(53)
Balance, April 30, 2022	-	-	251	612	27	890
Additions	-	-	114	82	19	215
Impairment loss	25,283	-	-	83	-	25,366
Balance, January 31, 2023	**25,283**	**-**	**365**	**777**	**46**	**26,471**
Net Book Value						
Balance, April 30, 2022	31,134	10,923	3,675	1,147	60	46,938
Balance, January 31, 2023	**9,913**	**10,923**	**3,561**	**982**	**40**	**25,419**

During the period ended January 31, 2023, additions to Construction in Progress include capitalized borrowing costs of $nil (year ended April 30, 2022 approximately $1.0 million).

Impairment of Property, Plant & Equipment

Property and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable.

At July 31, 2022, as a result of testing outcomes and substantially increased cost estimates to complete the original facility in Aldersyde, Alberta, the Company ceased its initial development plans and evaluated the future use of the facility in the Company's operations. In addition, the Company's initially planned development for a research and development ("R&D") facility in Fort Saskatchewan were changed to focus on a new R&D facility in Aldersyde. As a result of the changes, the Company no longer expected that it will recover all of the associated costs and related equipment through the normal course of business and this triggering event resulted in an impairment charge of approximately $25.3 million during the three months ended July 31, 2022.

To assess the recoverable amount of these assets, the Company reviewed their listing of equipment and made judgments as to their expectations of being able to economically utilize the equipment as part of either the planned new R&D facility or future commercial facilities. Based on this analysis, the recoverable amount of assets not expected to be utilized in future operations was based on fair value less cost to sell, being a nominal value. For specific assets that are expected to remain in use in future periods the Company determined the recoverable amount using a cost approach due to the relatively recent acquisition and quality condition of this equipment. The Company will continue to assess the ability to utilize the specific assets and will test for impairment in future periods if circumstances indicate the assets are no longer expected to be utilized.

All amounts Canadian $000's, except share and per share amounts

Intangible Assets

Intangible assets are comprised of the Company's intellectual property, including patents in Canada and the United States, to utilize waste to produce fuel through a thermal catalytic depolymerization process. Intangible assets are amortized using straight-line method, with no residual value, over their anticipated life.

	Jan 31, 2023	Apr 30, 2022
Opening balance	2,002	-
Additions	-	2,050
Amortization	(87)	(48)
Total Intangible Assets	1,915	2,002

6. ROYALTY PAYABLE

As at	January 31, 2023	April 30, 2022
Royalty payable – Current	889	889

Pursuant to an early warrant exercise incentive program in 2018 (the "Program"), 10,162,500 warrants were exercised early in exchange for a $0.0875 per warrant fixed rate royalty. The fair value of the royalty payable of $662,189 was initially recognized as a share issue cost in 2018. The discount to the face value of the total royalty liability of $889,219 has been subsequently recognized using the effective interest rate method at 15% per annum.

Royalty certificates were issued to the participants dated July 3, 2018, indicating a payment deadline of July 3, 2020. As a result of delayed operations, production, and revenues, on July 3, 2020, the Company obtained the requisite approval of the holders of the royalties to delay the commencement of payment associated with the royalties for a period of two years until July 3, 2022. In June 2022, the Company further delayed the repayment of the royalties as a result of further delays in operations, production and revenue, and generally for cash flow and working capital purposes, for an additional 18 month period, terminating on January 3, 2024, following receipt of the requisite approval of the holders of the royalties.

Once production and sales begin, the Company is required under the royalty terms to allocate 10% of gross sales to the payment of the royalties.

7. LOANS

As at	January 31, 2023	April 30, 2022
Current portion, loans		
First Mortgage Loan, 6%, due September 1, 2023 (Notes 8 & 14)	4,219	-
CEBA loan	60	-
Total current portion long-term loans	**4,279**	**-**
Long term portion, loans		
CEBA loan	-	60
First Mortgage Loan, 6%, due September 1, 2023	-	5,652
Second Mortgage Loan, 3%, due February 18, 2024 (Notes 8 & 14)	9,473	8,566
Total long-term portion, loans	9,473	14,278
Total Loans	13,752	14,278

All amounts Canadian $000's, except share and per share amounts

In August 2021, the Company completed a mortgage loan (the "First Mortgage Loan") for $12 million. In February 2022, the Company completed a second mortgage loan (the "Second Mortgage Loan") in the amount of $11 million. The Company utilized $5.5 million of the net proceeds of the Second Mortgage Loan to repay a portion of the First Mortgage Loan, leaving a principal balance owing of $6.5 million. The First Mortgage Loan and the Second Mortgage Loan are secured in part by the Company's properties in Aldersyde and Fort Saskatchewan, Alberta.

In the nine months ended January 31, 2023, the Lender, agreed to exchange $2 million debt for shares (Note 8) as repayment on First Mortgage. After recognizing the payment, net of discount, a loss on settlement of debt was realized of $0.09 million.

8. SHARE CAPITAL

The aggregate number of Class A common shares and Class B preferred shares which are authorized and may be issued is unlimited. As at January 31, 2023 and 2022, there are no Class B preferred shares issued or outstanding.

The number of common shares issued and outstanding:

Nine months ended January 31	**2023**		2022	
Common Shares	Number of Shares	$ Amount	Number of Shares	$ Amount
Balance, beginning of period	662,329,912	99,769,413	611,682,938	79,672,607
Issued for IP purchase			10,000,000	2,050,000
Shares issued on public offering	139,642,856	9,775,000	-	-
Fair value of warrants issued	-	(2,653,214)	-	-
Issued for debenture conversion	-	-	15,662,500	4,709,500
Issued in settlement of debt	26,984,127	1,888,889	-	-
Issued for warrant exercise	300,000	27,000	24,339,474	13,323,085
Issued for option exercise	-	-	645,000	91,663
Share issuance cost	-	(1,098,352)	-	(35,508)
Balance, end of period	**829,256,895**	**107,708,736**	**662,329,912**	**99,811,347**

Debenture conversions

In the nine months ended January 31, 2023 no debentures were converted. During the nine months ended January 31, 2022, the Company converted debentures of $4.71 million, into 15,662,500 common shares of the Company. The carrying value of the debentures were reclassified to equity on the conversion dates.

Shares for Debt - Partial Repayment of Mortgage Loan

In August, 2022, the Company agreed, subject to the approval of the TSX Venture Exchange (the "Exchange"), to repay $2 million of the First Mortgage Loan (Note 7), in exchange for the issuance of common shares. On September 8, 2022, following receipt of approval from the Exchange, the Company issued 21,428,571 common shares of Cielo at a price of $0.07 per share and 5,555,555 common shares of Cielo at a price of $0.09 per share, for an aggregate issuance of 26,984,126 common shares (the "Repayment Shares"). The result of the issuance of the Repayment Shares is a reduction of the First Mortgage Loan to a principal balance of $4.5 million (note 7). The fair value of the shares on the on the closing date were $0.07 per share resulting in an amount of $1.9 million being recorded in share capital. The difference between the fair value of the share issued and the $2 million reduction in the principle of the First Mortgage Loan was recorded as a loss during the period ending January 31, 2023. The Repayment Shares were subject to a 4-month hold period, which expired on January 9, 2023.In addition, 2,000,000 bonus warrants issued to the lender(s) of the First Mortgage Loan had their term reduced and expired on December 7, 2022.

All amounts Canadian $000's, except share and per share amounts

Public Offering of Securities

On July 8, 2022, the Company closed a public offering (the "Offering") of units (the "Units") issuing 139,642,856 Units at a price of $0.07 per Unit (the "Offering Price"), for gross proceeds of approximately $9.8 million.

Each Unit is comprised of one common share (each a "Unit Share", collectively the "Unit Shares") and one common share purchase warrant (each a "Warrant", collectively the "Warrants") of the Company. Each Warrant entitles the holder thereof to acquire one common share of Cielo at an exercise price of $0.09 for a period of 60 months. The Warrants commenced trading on the TSX Venture Exchange ("TSXV") under the symbol "CMC.WT" on July 12, 2022.

The Offering Price was allocated between the Unit Shares and the Warrants by first assessing the fair value of the Warrants and then allocating the residual to the Unit Shares. The fair value of each warrant was estimated using the Black-Scholes option pricing model with assumptions as follows:

Risk-free interest rate	3.0%
Expected life (years)	5
Expected volatility	35%
Share price at issuance date	$0.07
Exercise price of warrants	$0.09
Expected dividends	Nil
Fair value of warrants granted ($/warrant)	$0.019

The Company allocated $0.051 to each Unit Share and $0.019 to each Warrant. As compensation, the Company paid to an agent (the "Agent") a cash fee of approximately $0.5 million; an advisory fee of $.04 million (the "Advisory Fee"); and issued to the Agent an aggregate of 7,344,589 broker warrants (the "Broker Warrants"). Each Broker Warrant entitles the Agent to purchase one Unit at an exercise price of $0.07 per Unit until July 8, 2027. The fair value of each Broker Warrant was estimated using the Black-Scholes option pricing model with assumptions as follows:

Risk-free interest rate	3.0%
Expected life (years)	5
Expected volatility	35%
Share price at issuance date	$0.07
Exercise price of warrants	$0.07
Expected dividends	Nil
Fair value of Broker Warrants granted ($/warrant)	$0.025

All amounts Canadian $000's, except share and per share amounts

Warrants

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

	Number of Warrants	Weighted average exercise price	Reserve amount
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 First Mortgage Loan (Note 7)	12,000,000	1.00	1,206,078
Issued in connection with Second Mortgage Loan (Note 7)	50,000,000	0.22	2,595,620
Deferred tax impact	-	-	(874,391)
Exercised	(24,339,474)	0.09	(1,220,687)
Balance April 30, 2022	62,000,000	0.37	2,927,307
Expired in connection with payment on First Mortgage Loan	(7,500,000)	1.00	-
Issued in connection with public unit offering	139,642,856	0.09	2,653,214
Broker warrants issued in connection with public unit offering	7,344,589	0.07	183,615
Exercised	(300,000)	0.09	(27,000)
Balance January 31, 2023	201,187,445	0.14	5,737,136

In August 2021, the Company completed a mortgage loan (the "First Mortgage Loan") for $12,000,000 (Note 7). In connection with the First Mortgage Loan, Cielo issued 12,000,000 non-transferable bonus warrants (the "First Mortgage Bonus Warrants"). Each First Mortgage 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 First Mortgage Loan is repaid in whole or in part during its term, a pro rata number of the total First Mortgage Bonus Warrants will have their term reduced to the date that is 90 days from such repayment. Subject to the partial loan repayment detailed in "Partial Repayment of Mortgage Loan by way of Shares for Debt" , 2,000,000 First Mortgage Bonus Warrants have had their term reduced and expired on December 7, 2022.

The fair value of the First Mortgage Loan was measured, and the residual amount was allocated to the warrants. As the First Mortgage Bonus Warrants were issued in connection with the First Mortgage 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 First Mortgage Bonus Warrants.

The Company utilized $5.5 million of the net proceeds of the Second Mortgage Loan (as defined below) to repay a portion of the First Mortgage Loan. As a result of the partial repayment to the First Mortgage Loan, the term of 5,500,000 of the 12,000,000 First Mortgage Bonus Warrants was reduced such that the 5,500,000 of the First Mortgage Bonus Warrants expired on May 19, 2022.

The Company completed an $11 million mortgage loan (the "Second Mortgage Loan"), effective February 18, 2022 (Note 7). In connection with the Second Mortgage Loan, the Company issued 50,000,000 non-transferable share purchase warrants (the "Second Mortgage Bonus Warrants"), with each Bonus Warrant entitling FCF to purchase one common share of the Company at an exercise price of $0.22 for a period of 24 months; however, in the event that the Loan is repaid early in whole or in part, a *pro rata* number of the total Bonus Warrants will have their term reduced to the date that is the later of:

(i) 30 days following the date of such repayment; and

(ii) 12 months from the date of issuance of the Second Mortgage Bonus Warrants.

The proceeds for the Second Mortgage Loan were first allocated to the loan based on its estimated fair value of $8.4 million using an estimated fair value interest rate of 17%. The residual value of $2.6 million was allocated to the Second Mortgage Bonus Warrants.

All amounts Canadian $000's, except share and per share amounts

As at January 31, 2023, the Company had the following warrants outstanding:

Exercise Price	Number of Outstanding and Exercisable	Weighted Remaining life (Years)	Weighted average exercise price
$1.00	4,500,000	1.56	$1.00
$0.22	50,000,000	1.05	$0.22
$0.09	139,342,856	4.43	$0.09
$0.07	7,344,589	4.43	$0.07

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").

The Company's Board of Directors approved the further amendment of the Company's stock option plan (the "2022 Amended Stock Option Plan") on September 15, 2022, subject to the approval of the Exchange and the Company's shareholders. Shareholders voted in favour of the plan at the Annual General Meeting on October 27, 2022, in December 2022 the Plan was approved by the Exchange. The amendment was primarily made to provide for certain changes made to the policies of the Exchange, including the ability to exercise options via "net exercise" or "cashless exercise" methods. As with the previous plan, under the 2022 Amended 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 2022 Amended Stock Option Plan, the Company may grant options to its directors, officers, employees, and consultants.

Continuity of the Company's option plan is as follows:

	Number	Weighted Average exercise Price
Balance April 30, 2021	1,700,000	$ 0.51
Issued	27,965,057	0.21
Canceled	(1,078,182)	0.38
Expired	(680,000)	1.25
Exercised	(645,000)	0.10
Balance April 30, 2022	27,261,875	$ 0.20
Issued	17,692,308	0.08
Forfeited	(12,256,987)	0.21
Expired	(5,501,827)	0.20
Balance January 31, 2023	27,195,369	$ 0.12

All amounts Canadian $000's, except share and per share amounts

The following table summarizes the options outstanding and exercisable at January 31, 2023:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
$ 0.065	10,492,308	4.92	$ 0.065	933,332
0.100	250,000	0.34	0.100	250,000
0.100	7,200,000	4.92	0.100	3,600,000
0.200	9,022,096	3.92	0.200	6,366,250
0.310	230,965	4.16	0.310	-
	27,195,369	4.54	$ 0.12	11,149,582

Restricted Share Units and Deferred Share Units

The Company amended and replaced its restricted share unit plan with a non-option incentive plan (the "Non-Option Plan") effective June 18, 2021. Shareholders voted in favor of the plan at the Annual General and Special Meeting on October 21, 2021. The Non-Option Plan provides for a fixed maximum of 25,807,196 common shares to be reserved for issuance under the Non-Option Plan, being 4% of the issued and outstanding common shares of the Company as at the date the Non-Option Plan became effective. No restricted share units that had been issued under the predecessor restricted share unit plan (the "Predecessor RSU Plan") were outstanding at the time that the Non-Option Plan became effective. Under the Non-Option Plan, the Company may grant restricted share units, performance share units, deferred share units and share appreciation rights to directors, officers, employees and consultants. While the Company intends to settle RSUs by issuance of common shares upon vesting, there is a cash settlement option at the discretion of the Company.

The RSUs will vest in equal tranches on the grant date, the first and second anniversaries of the grant date, and were payable in cash or common shares, at the discretion of the Company, upon vesting. The DSUs are payable in cash or common shares, at the discretion of the Company, upon the later of:

(i) the holder ceasing to be a director of the Company (except for Cause, as defined in the Plans, in which case the DSUs will not vest); and

(ii) 12 months after the holder becomes a director of the Company.

The fair value of each RSU and DSU granted during the year ended April 30, 2022 is $0.20 per unit. The number of RSU and DSU outstanding is detailed below:

	RSU	DSU
Balance April 30, 2021	-	-
Issued	5,500,000	2,100,000
Vested - paid in cash	(1,833,333)	-
Balance April 30, 2022	3,666,667	2,100,000
Forfeited	(3,666,667)	-
Outstanding January 31, 2023	**-**	**2,100,000**

All amounts Canadian $000's, except share and per share amounts

Share-based compensation

	Three months ended January 31		Nine months ended January 31	
	2023	**2022**	**2023**	**2022**
Stock options	73	776	112	967
Restricted share units	-	397	(122)	397
Deferred share units	70	35	280	35
Total share-based compensation	**143**	**1,208**	**270**	**1,399**

During the period ended January 31, 2023, options and RSUs were forfeited and expired due to the departure of personnel, resulting in a reversal of the share-based compensation expense recorded in prior periods for instruments that had not fully vested at the time of forfeiture.

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 January 31, 2023 of 780,918,415 (2022 – 658,573,390).

Basic and diluted loss per share have been calculated based on the weighted average number of shares outstanding for the nine months ended January 31, 2023 of 829,256,895 (2022 648,342,707).

The effect of any potential exercise of warrants and stock options is excluded from the calculation of diluted loss per share for the periods ended January 31, 2023 and 2022 as the effect would be anti-dilutive.

9. FINANCING COSTS

	Three months ended January 31		Nine months ended January 31	
	2023	2022	**2023**	2022
Amortization of deferred financing costs	-	-	-	212
Interest on loans	600	477	1,777	1,698
Accretion of lease liability	20	21	61	43
Capitalized interest	-	(249)	-	(731)
Total	**620**	**249**	**1,838**	**1,222**

10. RELATED PARTY TRANSACTIONS

Renewable U Energy Inc. ("Renewable U")

For the year ended April 30, 2022, the CEO, director and shareholder of Renewable U, Ryan Jackson was also a director of Cielo. In June 2022, Ryan Jackson was appointed CEO of the Company and resigned from his positions as CEO and director of Renewable U. He continues to hold, indirectly through a holding company, 10% or less of the issued and outstanding shares of Renewable U which shares have been deposited into an irrevocable blind trust managed by a trustee.

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 $0.25 million to the Company for the execution of each MOU. The fees are non-refundable unless a joint arrangement agreement is not executed by the end of August, 2023 (or such other date as agreed by Cielo and Renewable U), other than as a result of the apparent inability of Renewable U to fund the joint venture projects. For the periods ended January 31, 2023, fees received were $Nil. As at April 30, 2022, the Company received total deferred fees of $2.25 million.

Pursuant to the MOUs, the Company would also be responsible for overseeing the planning, construction, commissioning, and operation of each facility and would 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 would continue to receive management fees once operations begin based on industry standards.

During the three and nine months ended January 31, 2023, no transactions were entered into with Renewable U. For the three and nine months ended January 31, 2022, the Company charged Renewable U management fees of $0.03 million and $0.09 million respectively, and made a credit adjustment of $0.06 million to the management fees related to the fourth quarter of fiscal 2021. As of January 31, 2023, amounts receivable from Renewable U was $nil (2022, $0.09 million).

11. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair Value Measurement

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

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

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.

All amounts Canadian $000's, except share and per share amounts

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 January 31, 2023, 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 January 31, 2023 to the contractual maturity date. The amounts are equivalent to the following contractual undiscounted cashflows.

Fiscal year	**2023**	**2024**	**After 2024**
Accounts payable and accrued liabilities	2,004	-	-
Royalty payable	-	889	-
Loans	4,279	9,473	-
Lease liability	108	176	236
Total	6,391	10,538	236

As at January 31, 2023, the Company had cash balance of approximately $3.2 million and working capital deficit of approximately $5.2 million. Management continues to monitor and consider different alternatives to secure adequate financing to meet the Company's longer term cash requirement for commercializing its operations and developing new facilities. See Note 3 for additional information.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 January 31, 2023, the Company had US dollar denominated accounts payable of under $0.04 million 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. The Company manages its exposure to credit loss by holding cash on deposit with major financial institutions.

As at January 31, 2023 the carrying amounts of the Company's cash, GST and other receivables approximate their fair value due to their short-term nature.

12. COMMITMENTS AND CONTINGENCIES

As at January 31, 2023, the Company is committed to expenditures under various contracts with service providers for general and administrative services. As at January 31, 2023, the Company had contractual obligations as follows:

All amounts Canadian $000's, except share and per share amounts

Fiscal year	**2023**	**2024**	**2025 +**	**Total**
Lease obligations	48	176	495	719
Total contractual obligations	48	176	495	719

The Company may be periodically subject to legal proceedings or other similar actions arising in the normal course of business. The amounts involved in such proceedings or actions are not reasonably estimable; however, it is the opinion of management that the ultimate resolution of such proceedings and actions will not have a material impact on the Company's financial position or results of operations.

13. LEASE

The Company entered into a commercial operating lease (the "Lease") with a private, third-party corporation (the "Tenant') for 15 of the approximately 60 acres owned by Cielo in Fort Saskatchewan, Alberta (the "FS Property"), which includes the building that is located on the FS Property (together the "Leased Premises"). The Lease is for a term of 5 years, beginning as of August 1, 2022, at a monthly base rent of $50,000 plus 90% of the occupancy costs for the Leased Premises (such as property taxes, insurance, and building maintenance). The Tenant may extend the term of the Lease for an additional period of 5 years upon mutual approval. The Tenant also has the right to terminate the Lease upon three (3) months' notice if prior to April 30, 2025. The Tenant has a right of first refusal with respect to the purchase and sale of the land by the Company.

Rental income for the three and nine month periods ending January 31, 2023 was approximately $0.15 million and $0.3 million respectively (2022 $nil), and is included in Other Income.

14. SUBSEQUENT EVENTS

Securities for Debt

Cielo reached an agreement with its lender to repay the First Mortgage Loan (Note 7 & 8) in the amount of $4.5 million through an Equity for Debt agreement (the "Agreement"), effective February 22, 2023. The Agreement is for $4.5 million, and consists of 64,285,714 Debt Units at the great of $0.07 or market per Debt Unit, each Debt Unit consisting of one common share of Cielo, and one common share purchase warrant ("Unit Warrant"). Each Unit Warrant is exercisable for a period of 3 years at $0.125 per common share.

Pursuant to the terms of the Shares for Debt Transaction, the Lender has agreed to:

- discharge security against held on the Aldersyde property;
- surrender bonus warrants (Note 7 and Note 8 Warrants) prior to closing of the Securities for Debt transaction:
  - 50,000,000 Second Mortgage Bonus Warrants with an exercise price of $0.22 in relation to the Second Mortgage Loan, and
  - 4,500,000 with an exercise price of $1.00 in relation to the First Mortgage Loan.

The Shares for Debt Transaction is subject to the approval of the Exchange. All securities issued in connection with the Financing will be subject to statutory hold periods in accordance with applicable securities legislation.

Private Placement

Private Placement

The Company entered an agreement for a private placement offering that is expected to provide gross proceeds of up to $5 million for the issuance of up to 40,000,000 units at $0.125 per unit (the "Offering"). Each unit will consist of one common share of Cielo, and one common share purchase warrant, each warrant exercisable for a period of 3 years at $0.14 per common share.

The Offering is subject to the completion of a due diligence review by the proposed subscriber (the "Subscriber"), pursuant to which the Company paid due diligence fees of $0.1 million. The Offering is also subject to the approval of the Exchange. The Offering, if completed, will realize proceeds of approximately $4.9 million, net of due diligence costs. All securities issued in connection with the Offering will be subject to statutory hold periods in accordance with applicable securities legislation.

A director of the Company holds a minority interest in the Subscriber.