

# Q3 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights

for the Three and Nine Months Ended January 31, 2023



**CIELO**

## MESSAGE TO SHAREHOLDERS



**Ryan Jackson**  
Chief Executive Officer

"Our focus continues to be one of being a leading waste solutions company that creates a product that is not only sustainable but useful

### Dear Shareholders,

It is my pleasure to present to you the Q3 Management Discussion and Analysis – Quarterly Highlights (MD&A) for Cielo. We continue to strive every day to build value for our stakeholders and our shareholders.

We are proud of the progress that we have made as a company as we build our core team. We continue to prepare for the next steps in the company's evolution.

### The Path to Commercialization

When you read this message, we will have taken delivery of our R&D Facility and commenced commissioning. Cielo is excited to be finally in the position to continue on our path to commercialization with this significant milestone. I couldn't be more proud of the great work that our Operations Team has done to get us to this point.

Our focus continues to be a leading waste solutions company that creates a product that is not only sustainable, but useful. There is so much on this planet we live on that is used and discarded, and we would like to make a difference through waste reduction with our technology. With the ability to gain insight through our R&D Facility, we are well on our way to understanding how much more we can actually do for our earth.

### Conclusion

We trust that you will find the information in this MD&A useful and informative. Thank you for taking the time to read it and thank you for being a part of Cielo.



**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 March 14, 2023 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 nine months ended January 31, 2023 and 2022, 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 March 14, 2023.

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](http://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”) 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](http://www.sedar.com). Information contained in or otherwise accessible through the Company's website does not form part of this MD&A.

### 2. COMPANY Q3 2023 HIGHLIGHTS

During, and subsequent to the quarter, Cielo achieved the following goals:

- **Successfully negotiated \$5 million** private equity offering to support ongoing R&D and operating costs, subject to completion of due diligence and approval of the TSX Venture Exchange (the “Exchange”);
- **Negotiated full payment of \$4.5 million debt for equity** (subject to the approval of the Exchange), freeing up future cash flows for operations and reducing interest charges.
- **Completed majority of the fabrication** of the R&D Facility (as defined below) and began commissioning of the R&D Facility at Aldersyde.
- **Completed sale** of approximately 80,000 litres of distillate for approximately \$0.005 million to a TSX listed midstream refiner.
- **Developed a performance-based** retention program for key personnel.

### 3. 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

# Cielo Waste Solutions

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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:

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 favorable 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&amp;D Facility and the design of its first full scale commercial facility, the anticipated data and results from, and uses for, the R&amp;D Facility (including the impact on the design of the Company's first full-scale commercial facility), and the intended use of the R&amp;D Facility following commissioning, and that Cielo will be successful in its plans to complete its R&amp;D Facility, and utilize it for R&amp;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&amp;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&amp;D Facility will be capable of improving the design and function of the Company's first 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, and the requirements in order to progress to a full scale commercial facility.</p> <p>The completion, terms and timing of each of the private placement offering of units and the securities for debt transaction.</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

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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.

#### 4. 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 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.

#### 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:



<sup>1</sup> Subject to Alberta Environment and Parks (AEP) approval

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#### 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 railway ties. Additional testing for rubber and plastic feedstocks may require modifications to the R&D Facility (and consequently additional AEP approval).

To date approximately \$3.3 million has been paid for the construction of the R&D Facility, with completion anticipated in by March 31, 2023., at which point commissioning of the Facility commences.

##### 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 has assessed alternatives for its Fort Saskatchewan Property ("FS Property"), and 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 up to April 30, 2025 upon three (3) months' notice. The Tenant also has a right of first refusal with respect to the sale of the FS Property. Rental income for the three and nine month periods ending January 31, 2023 total \$0.3 million and \$0.15 million respectively.

The Company expects to list the FS Property for sale in the near future. The anticipated sale is expected to reduce interest costs, minimize corporate risk, and provide capital for ongoing operations, which are in line with corporate goals.

## 6. OVERALL PERFORMANCE

### Financial Overview

All amounts \$000's

As at (Thousands of dollars)	January 31, 2023	April 30, 2022
Total assets	31,983	53,531
Total liabilities	19,415	19,932
Total non-current liabilities	9,985	16,959
Working capital	(5,233)	1,164

Periods ended January 31 (Thousands of dollars, except per share amounts)	Three months ended		Nine months ended	
	2023	2022	2023	2022
Financing costs	620	249	1,838	1,222
General and administrative	1,137	1,944	3,021	5,153
Research and development	442	777	1,406	4,568
Share based compensation	143	1,208	270	1,399
Net loss per share – basic & diluted	(0.003)	(0.007)	(0.042)	(0.042)

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For the three months ended January 31, 2023, the Company had a net loss of \$2.3 million which consisted primarily of (i) general and administrative of \$1.1 million (ii) research & development costs of \$0.4 million; (iii) finance costs of \$0.6 million and (iv) share based compensation of \$0.1 million. Net loss for the period is consistent with prior periods as expected, except for the following:

Net loss for the nine months ended January 31, 2023 was \$32.1 million, \$20 million higher than the period ended January 31, 2022, 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 \$2.1 -million as the Company incurred costs relating to its corporate development in the prior year; a *decrease* in research and development expenditures of \$3.2 million as the Company reduced activity at Aldersyde and ultimately decommissioned the Aldersyde Facility.

During the quarter ended January 31, 2023, 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 January 31 (Thousands of dollars)	Three months ended		Nine months ended	
	2023	2022	2023	2022
Amortization of deferred financing costs	-	-	-	211
Interest on loans	600	477	1,777	1,698
Accretion of lease liability	20	21	61	43
Capitalized interest	-	(249)	-	(482)
Total	620	249	1,838	1,222

Financing costs increased approximately \$0.4 million for the 3 month period and \$0.6 million for the 9 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 January 31 (Thousands of dollars)	Three months ended		Nine months ended	
	2023	2022	2023	2022
Professional fees	290	366	981	1,906
Personnel	694	1,261	1,366	2,380
Property tax and insurance	84	125	419	424
Office and administrative	70	192	254	443
Total	1,137	1,944	3,021	5,153

General & administrative costs decreased \$2.1 million (9 month period) and \$0.8 million (3 month period) from their

comparative periods due to reduced spending in all expenditures in the category.

#### Research & Development

Periods ended January 31 (Thousands of dollars)	Three months ended		Nine months ended	
	2023	2022	2023	2022
Operating expenses	247	503	705	3,011
Personnel	195	274	701	1,557
Total	442	777	1,406	4,568

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

### Other income

Periods ended January 31 (Thousands of dollars)	Three months ended		Nine months ended	
	2023	2022	2023	2022
Rental income	151	-	304	-
Distillate sales	46	-	46	-
Other costs	(33)	(49)	(33)	(102)
Total other income (expense)	165	(49)	318	(102)

Other income increased significantly from comparative periods, primarily due to Cielo's lease in of the FS Property. The Lease of FS Property 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 Outstanding securities summary

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, and the right of first refusal with respect to the sale of the FS Property

As at	31-Jan-23
Issued & Outstanding	829,256,895
Options Outstanding - Vested & exercisable	11,149,582
Warrants outstanding (exercisable)	201,187,445
<i>Outstanding (Diluted)</i>	<i>1,041,593,922</i>
Options Outstanding - unvested	16,045,787
DSU's outstanding - unvested	2,100,000
<i>Outstanding (Fully diluted)</i>	<i>1,059,739,709</i>

As at the date of this MD&A, there were no changes to the numbers above.

## 7. PRIVATE EQUITY PLACEMENT & DEBT SETTLEMENT

During, and subsequent to the quarter ending January 31, 2023, Cielo negotiated two equity agreements to improve cashflow, minimize interest costs, and reduce risk. In total, the proposed transactions equate, upon completion, to approximately \$9.5 million and include cash and debt settlement for equity. All securities issued in connection with the proposed transactions are subject to the approval of the Exchange and are anticipated to close in fiscal Q4 2023.

The financings are expected to:

- Inject \$4.9 million cash for the R&D Facility and working capital, net of costs;
- Retire \$4.5 million mortgage debt (which matures August 2023), and save on related interest;
- Release security held by the lender on the Aldersyde property;
- Result in the termination of:
  - 50,000,000 bonus warrants with an exercise price of \$0.22 in relation to the Second Mortgage (as defined below)
  - 4,500,000 bonus warrants with an exercise price of \$1.00 in relation to the First Mortgage Loan .

### Private Placement

On February 13, 2023, the Company announced the amendment of a binding letter of intent regarding the amended terms of a proposed financing, initially proposed to be an

offering of secured convertible debentures. The amended terms of the private placement offering (the "Offering") provide for gross proceeds of up to \$5 million for the issuance of up to 40,000,000 units at \$0.125 per unit. Each unit will consist of one common share of Cielo, and one common share purchase



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warrant, each warrant exercisable for a period of 3 years at \$0.14 per common share.

Instrument	\$ per share	Quantity	Status
Common shares	0.125	40,000,000	pending
Unit Warrant	0.14	40,000,000	pending – expires 3 years after issuance

The Offering is subject to the completion of a due diligence review by Crestmont Investments, LLC, (the “Subscriber”), pursuant to which the Company paid due diligence fees of \$100,000. 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.

### Securities for Debt

On February 22, 2023, the Company entered into a securities for debt agreement (the “Agreement”) with respect to a proposed securities for debt transaction (the “Shares for Debt Transaction”) for a mortgage loan provided by the Lender in August 2021 (the “First Mortgage Loan”), having a principal balance owing as at the date of the Agreement of \$4.5 million.

Pursuant to the terms of the Agreement, the Company has agreed to pay the \$4.5 million by issuing 64,285,714 units (the “Debt Unit(s)”) at a price of \$0.07 per Debt Unit, each Debt Unit consisting of one common share of Cielo, and one common share purchase warrant, each warrant exercisable for a period of 3 years at \$0.125 per common share.

Instrument	\$ per share	Quantity	Status
Common shares	0.07	64,285,714	pending
Unit Warrant	0.125	64,285,714	pending – expires 3 years after issuance

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

- discharge security against the Company’s property in Aldersyde under a second mortgage loan in the amount of \$11 million (the “Second Mortgage Loan”);
- surrender bonus 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 regards 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.

## 8. BONUS RETENTION PLAN UPDATE

Cielo has granted a total of 17,692,308 stock options (the “Options”) to certain directors, officers, and employees. The Options were granted pursuant to the Company’s amended, 2022 10% rolling stock option plan (the “Option Plan”) which

has been approved by the Exchange, and by the Company’s shareholders at its last Annual General Meeting held on October 27, 2022. Each Option represents the right to receive one common share of the Company upon vesting.

Role	Options Granted	Exercise per Share	Vesting period (years)	Vesting
Independent Directors	7,200,000	\$0.10	1	50% upon grant; 12.5% each quarter following
Employees	2,800,000	\$0.065	2	33.33% upon grant, 33.33% annually thereafter
CEO & CFO	7,692,308	\$0.065	1	*Milestone per below

\*Milestones (the “Milestones”)required prior to specific options vesting, and retention bonus payment, are:

- the completion and commissioning of the Company’s R&D Facility;
- completion of a railway ties feedstock testing trial; and
- the completion of all process flow diagrams and construction drawings for the Company’s first full-scale commercial facility.

With respect to Options granted to the CEO and CFO (the “Milestone Options”), vesting will occur on the later of: a) January 2, 2024; and b) the date upon the Milestones are met at the discretion of the Board of Directors of the Company (the “Board”). All Options referenced herein will expire on December 31, 2027, unless earlier terminated or exercised.

This grant of Options is part of Cielo’s bonus retention plan, which also includes a cash bonus to employees (excluding the CEO, CFO and Board) subject to achieving the Milestones (“Milestone Bonuses”), and is intended to ensure strong talent

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and a committed team to take the Company through to the next phase of growth related to the design of Cielo's first full-scale commercial facility.

Neither the Milestone Options nor the Milestone Bonuses will vest or be remitted if the Milestones are not achieved.

## 9. LIQUIDITY AND FINANCIAL CONDITION

Cash decreased during the three months ended January 31, 2023 primarily due to net cash used in operating activities of \$0.4 million and cash used in investment activities of \$0.2 million.

Net cash used in operating activities was \$0.4 million for the quarter ended January 31, 2023. 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 provided by investing activities was \$0.1 million for the three months ended January 31, 2023. For the nine month period \$3.3 million was used for investing activities.

Cash used in financing activities was \$0.2 million for the three months ended January 31, 2023, for the nine-months ended January 31, 2023 financing activities provided \$8.5 million, primarily due to the public offering which realized \$9.8 million (less costs).

Total assets decreased by \$22.0 million as of January 31, 2023 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 \$1.2 million as of January 31, 2023 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 January 31, 2023, the Company had a net working capital deficit of approximately \$5.2 million (April 30<sup>th</sup>, 2022 working capital of \$1.2 million).

## 10. Related Party Transactions

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 from his positions as CEO and director of Renewable U, but remains a beneficial shareholder 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.

Cielo has entered into nine (9) memorandums of understanding ("MOUs") in total with Renewable U and its affiliates to build

In determining the amounts and terms of the grants of these Options, the Board has taken into consideration various aspects of the Company's current status as a pre-revenue research and development company, as well as anticipated growth and development and future potential corporate actions

### *Going Concern Uncertainty*

Cielo has not yet generated revenue from its planned commercial operations and has accumulated losses of \$105 million as at January 31, 2023 and generated losses of \$2.3 million and \$32.1 million for the three and nine months, respectively, ended January 31, 2023. Cielo has a working capital deficit (defined as total current assets less total current liabilities) of \$4.5 million at January 31, 2023.

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 January 31, 2023, Cielo did not have any off-balance sheet arrangements in place that would materially impact its financial position or results of operations.

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

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executed by August, 2023 (or such other date as agreed by Cielo and Renewable U), and the deferred fees have been recognized as a current liability.

There were no transactions with Renewable U during the three and nine month periods ended January 31, 2023.

#### ***Crestmont Investments, LLC.***

On February 13, 2023, the Company announced that it had entered into an amended letter of intent with Crestmont Investments, LLC (“Crestmont”). See section entitled “Private Placements and Debt Settlement” for additional details related to the proposed Offering. A director of the Company holds a 20% non-controlling interest in Crestmont.

## 11. 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 January 31, 2023 and 2022. 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 nine month periods ended January 31, 2023.

## 12. 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](http://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.

## 13. 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:

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

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

## **Cielo Waste Solutions**

### **Management's Discussion and Analysis – Quarterly Highlights**

For the Three and Nine Months Ended January 31, 2023

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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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