CIELO

Window to a Cleaner World™

CIELO WASTE SOLUTIONS CORP.

Management's Discussion and Analysis

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

ADVISORIES

The following Management's Discussion and Analysis ("MD&A") of financial position and results of operations for Cielo Waste Solutions Corp. ("Cielo" or the "Company"), dated December 21, 2021, 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 thereto for the three and six months ended October 31, 2021, and 2020, and the audited financial statements and notes thereto for the years ended April 30, 2021, and 2020. The audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). As described in Note 14 to the unaudited condensed consolidated interim financial statements for the three and six months ended October 31, 2021, and 2020, certain comparative period information presented for the three and six months ended October 31, 2020 was restated. As described in Note 20 to the audited financial statements for the years ended April 30, 2021, and 2020, certain comparative period information presented as at and for the year ended April 30, 2020 was restated. The comparative period information presented in this MD&A, including the summary of quarterly results, has also been restated to reflect the correction of these errors. See section entitled "Restatement of October 31, 2020 Comparative Period Financial Information" for additional information.

All amounts in the following MD&A are stated in Canadian Dollars unless otherwise stated. This MD&A was approved and authorized for issuance by the Board of Directors of the Company on December 21, 2021.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable Canadian securities laws. Forward-looking statements may relate to anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "plan", "target", "continue", "estimate", "expect", ""may", "will", "project", "should", "could", "believe", "predict", "potential", "scheduled", "estimates", "forecast", "projection". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts nor assurances of future performance but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Management's expectations, estimates and projections are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. All forward-looking statements in this MD&A are qualified by these cautionary statements.

This MD&A contains forward-looking statements that include, but are not limited to:

- in general, the Company's strategic intent and corporate goals and objectives;
- plans to renew or replace the mortgage loan for the Fort Saskatchewan property;
- anticipated benefits from the termination of the License Agreement;
- the objectives of the Aldersyde Facility and the purpose(s) to be served by the Aldersyde Facility;
- the timeline for certain milestones for the Aldersyde Facility, leading up to commissioning and start-up in March or April 2022, including details of, and activities in connection with, the Aldersyde Project;
- estimated cost requirements to achieve steady-state production on a commercial scale at the Aldersyde Facility;
- anticipated benefits from the utilization of the Company's desulphurization unit;
- the generation of revenue at the Aldersyde Facility and the anticipated benefits that may be realized at the Aldersyde Facility following the completion of the Aldersyde Project milestones;
- productions forecasts for the Aldersyde Facility for Q4 2021, 2022 and 2023;

- the purpose of the R&D Facility and the anticipated benefits from the R&D Facility's data output to facilitate the design of a full-scale commercial plant;
- estimated costs for the design, procurement and construction of the R&D Facility;
- the anticipated timeline and milestones for the construction and commissioning of the R&D Facility;
- experimentation, testing and analysis at the R&D Facility and details of the related activities, and the subsequent testing other waste materials, including plastics and railway ties;
- plans related to the design of a full-scale facility in Fort Saskatchewan following testing and analysis at the R&D Facility and subsequent construction and the timing thereof; and
- demand fundamentals for fuels from waste and renewable fuels.

These forward-looking statements and other forward-looking information are based on management's opinions, estimates and assumptions in light of experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management currently believe are appropriate and reasonable in the circumstances. There can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the Company's ability to build and operate facilities; retain key personnel; maintain good relationships with joint arrangement partners, customers and suppliers; execute on expansion plans; continue investing in infrastructure to support growth; obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the risks factors described under the heading entitled ''Risk Factors'' in the Company's Management's Discussion & Analysis for the years ended April 30, 2021, and 2020 ("Annual MD&A") available on SEDAR at www.sedar.com.

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 Company's Annual MD&A available on SEDAR at www.sedar.com should be considered carefully by readers. These risk factors should not be construed as exhaustive. Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as the date they are otherwise stated to be made) and are subject to change after such date.

Except as specifically required under applicable securities laws in Canada, Cielo assumes no obligation to publicly update or revise any forward-looking information to reflect new information, events or circumstances that may arise after December 21, 2021. All forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

GOING CONCERN

The Company has not yet generated revenue from its planned commercial operations and has accumulated losses of $66.3 million as at October 31, 2021 and generated losses of $4.8 million and $7.9 million for the three and six months ended October 31, 2021, respectively.

Working capital deficiency as at October 31, 2021 was $8.2 million, compared to $0.7 million deficit as at April 30, 2021. The increase in working capital deficiency of $7.5 million was mainly due to: (i) the decrease in cash balance which was used to fund research, development and corporate activities; (ii) the addition of the mortgage loan for the asset purchase in Fort Saskatchewan, Alberta; and (iii) partially offset by the decrease in short-term warrant liability upon the exercise of warrants. The initial term of the mortgage loan will end in August 2022 and Cielo has the option to renew the loan for a further period of six months in August 2022. Cielo is planning to either renew or replace the mortgage loan by the end of the initial term in August 2022.

In August 2021, the Company entered into a $12.0 million mortgage loan (the “Loan”) with First Choice Financial (“FCF”) and KV Capital (“KV”) (and together with FCF, the “Lenders”) for the asset purchase in Fort Saskatchewan, Alberta. The Loan includes a special covenant in relation to the Company’s market capitalization: (i) if the Company’s market capitalization is below $250.0 million but above $150.0 million, a $1.0 million loan repayment is required; (ii) if the Company’s market capitalization is below $150.0 million but above $100.0 million, an additional $1.0 million loan repayment is required; and (iii) if the market capitalization is below $100.0 million, an additional $1.0 million loan repayment is required. Subsequent to Cielo entering into this Loan agreement, the market capitalization of the Company was below $150.0 million on certain trading days. As a result, KV requested a total loan repayment of $2.0 million. As the date of this MD&A, Cielo is in the process of negotiating with the Lenders on this special loan covenant and has not made the repayment of $2.0 million.

The Company will require additional capital to fund costs relating to research, development and other corporate activities over the next year and beyond, and to fund payments of short-term indebtedness as they become due and otherwise fund the working capital deficiency. The Company will continue to explore alternatives to generate additional financing, which may include raising additional equity and debt or entering into strategic partnerships; however, there is no assurance that these initiatives will be successful.

The Company has not reached planned commercial operations and its ability to continue as a going concern is dependent on its ability to generate revenue and positive cash flow from operating activities, and its ability to obtain additional financing to fund the cost of research, development and other corporate activities. These matters create material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

BUSINESS OVERVIEW

- **Formation:** Cielo was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011. Cielo is a publicly traded company with its shares listed to trade on the TSX Venture Exchange (“TSXV”) under the symbol “CMC” in June 2021, as well as on the OTC Venture Market, under the symbol “CWSFF”.

- **Strategic Intent:** Cielo’s strategic intent is to become one of Canada’s leading waste to fuel companies using its environmentally friendly, economically sustainable technology. Cielo developed a process that can convert waste feedstocks, including plastics, rubber, organic material and wood derivative waste to fuel. Cielo’s business model is to source feedstocks from a wide variety of potential suppliers and convert the feedstocks into fuels to be sold to a wide variety of potential purchasers. The Company plans to construct facilities that will convert low carbon waste feedstocks to energy fuels, such as diesel, naphtha, and kerosene. The diesel from Cielo’s distillate could be used in diesel engines. Naphtha could be used to assist in transporting heavy oil, and kerosene could be suitable for aviation or marine jet fuel.

- **License Agreement:** pursuant to an agreement entered into between Cielo and 1888711 Alberta Inc. (“1888 Inc”), dated June 14, 2016, subsequently amended and restated on November 1, 2017, Cielo held an exclusive global license, to complete the development and commercialization of the Technology (as defined below) (the “License Agreement”). The Technology, which is patented in Canada and the United States, can utilize waste to produce fuel through a thermal catalytic depolymerization process. Cielo is currently using the Technology at its demonstration facility located in Aldersyde, Alberta, to produce fuel from wood waste and intends to construct both a research and development facility (the “R&D” Facility”) and a full-scale facility located in Fort Saskatchewan, Alberta (the “Full-Scale Facility”). Pursuant to the License Agreement:

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

- **Waste to Fuel Processes:** Cielo’s process for converting waste to fuel is referred to as thermal catalytic depolymerization. Feedstock is processed in a liquid slurry, currently using used motor oil, and is then heated in a reactor until liquified. The process uses atmospheric pressure and heat to break down feedstock molecules in the reactor until liquified. Once liquified, it is blended with a catalyst. The catalyst causes an accelerated reaction forming a distillate. The distillate is placed through a distillation process where it is heated to temperatures that produce diesel, kerosene and naphtha. Any references to the Company’s current production in liters per hour (“LPH”) of distillate refers to such a distillate product that consists of diesel and naphtha.

- **Aldersyde Facility:** Cielo’s first facility located in Aldersyde, Alberta (“Aldersyde Facility”) is currently converting wood derivative waste into a distillate product that consists of diesel and naphtha. The proprietary technology Cielo owns has been proven out at bench scale and at the Aldersyde Facility. The Company is continuing its research and development activities to achieve steady-state production of its distillate on a commercial scale and is also conducting research and development activities to produce fuels that would meet the requirements for highway diesel and renewable fuel under applicable legislation in Canada such as the federal Renewable Fuels Regulation and the Alberta Renewable Fuels Standard Regulation. Cielo expects there will be demand for its waste to fuel products regardless of whether its fuel products meet renewable fuel specifications; therefore, Cielo’s revenue stream is not dependent on producing renewable fuel. However, renewable fuel is expected to increase the profit margin of Cielo’s waste to fuel products.

SUBSEQUENT EVENTS

Termination of License Agreement and Execution of IP Purchase Agreement

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

Negotiations on behalf of Cielo were managed by independent members of the Cielo executive team and the terms of the preliminary agreement were approved by Cielo's Board of Directors. While the License Agreement ceased to be a related party agreement upon Mr. Don Allan's resignation as President, Chief Executive Officer ("CEO") and Director of 1888 Inc. on November 10, 2021, Mr. Don Allan did not participate in negotiations and abstained from voting on the matter when considered by Cielo's Board of Directors as Mr. Don Allan continues to be a beneficial minority shareholder of 1888 Inc.

Cielo anticipates that its stakeholders will benefit from the termination of the License Agreement in that it represents a simplified structure, elimination of any uncertainty as to Cielo's right to the Technology, and the improved earnings potential from the termination of all obligations concerning the Royalty and Refinery Fees that would otherwise be payable by Cielo to 1888 Inc. The issuance of the Shares to 1888 Inc does not impact Cielo's capital which it is employing to achieve the milestones including Cielo's progress towards commercialization.

Retirement of Cielo Founder, Mr. Don Allan

On December 16, 2021, the founder of Cielo, Don Allan, announced his intention to retire effective February 1, 2022, and in preparation for this transition, he also tendered his resignation as Chair of the Board, effective immediately. The Board has appointed Mr. Larry Schafran, a current Director of Cielo, to assume Mr. Allan's duties as Chair. Mr. Allan will continue to serve as President until his retirement to assist with the orderly transition of his current responsibilities to other members of the executive team, including Mr. Gregg Gegunde, who continues to serve as CEO and Chief Operating Officer ("COO"). The Company does not intend to appoint a President of Cielo.

Appointment to Board of Directors

On December 16, 2021, Cielo announced the appointment of Sheila A. Leggett to its Board of Directors. Ms. Leggett has extensive expertise in corporate governance, and sustainable resource development. Ms. Leggett is currently serving on the Board of Storm Resources Ltd. Ms. Leggett also currently serves on the advisory board for Nutana Power Ltd. and chairs the technical committee responsible for the International Standards Organization's environmental managements systems standards (14000 series). In addition, Ms. Leggett is a Senior Fellow of the C.D. Howe Institute, sitting on the Energy Policy Committee and from 2016 to 2021, served on the inaugural Calgary Regional Ambassador Council for Women Get on Board. Ms. Leggett was on the AESO Board from 2017 to 2020, on the Board of TELUS Spark from 2014 to 2020 (Chair from 2018 to 2020), was on the Alberta Environmental Monitoring, Evaluation and Reporting Agency Board from 2014 to 2016 and was an Executive Fellow at the University of Calgary School of Public Policy from 2016 to 2020. Prior thereto, Ms. Leggett was a member of the National Energy Board (2006 – 2013) where she served as Vice Chair from 2008 to 2013 and was the COO and Board member with the Natural Resources Conservation Board (2001 – 2006).

Ms. Leggett holds a Bachelor of Science in Biology from McGill University, a Master of Science in Biology from the University of Calgary and holds ICD.D director certification from the Institute of Corporate Directors. The appointment of Ms. Leggett is subject to the approval of the TSXV.

Engagement of Rose & Company

In December 2021, the Company signed an agreement to engage Rose & Company to provide investor relations and communication services effective January 1, 2022. The agreement between the Company and Investor Cubed Inc. for investor relations and communication services ended in October 2021.

SECOND QUARTER FINANCIAL OVERVIEW

- Total assets increased by $8.5 million as at October 31, 2021 compared to April 30, 2021, mainly due to the increase in property, plant and equipment related to the asset purchase in Fort Saskatchewan, Alberta for $13 million and the construction activities at Aldersyde Facility, partially offset by the decrease in cash related to the continued research and development activities and general and administrative expenditures.

- Total liabilities decreased by $1.9 million as at October 31, 2021 compared to April 30, 2021 due to the exercise of liability classified warrants, the conversion of convertible debentures and the decrease in accounts payable and accrued liabilities, partially offset by the mortgage loan for the asset purchase in Fort Saskatchewan, Alberta.

- Total non-current liabilities decreased by $0.2 million as at July 31, 2021 compared to April 30, 2021 due to the conversion of convertible debentures, partially offset by the increase in lease liabilities related to the Calgary office lease.

- Working capital deficiency as at October 31, 2021 was $8.2 million, compared to $0.7 million deficit as at April 30, 2021. The increase in working capital deficiency of $7.5 million was mainly due to: (i) the decrease in cash balance which was used to fund research, development, and corporate activities; (ii) the addition of the mortgage loan for the asset purchase in Fort Saskatchewan, Alberta; and (iii) partially offset by the decrease in short-term warrant liability upon the exercise of warrants. The initial term of the mortgage loan will end in August 2022 and Cielo has the option to renew the loan for a further period of six months in August 2022. Cielo is planning to either renew or replace the mortgage loan by the end of the initial term in August 2022.

- The net loss for the three months ended October 31, 2021, increased by $1.9 million compared to the same period in the prior year mainly due to: (i) the increase of $1.7 million in research and development expenses mainly related to the Aldersyde Facility; (ii) the increase of $1.2 million in general and administrative expenses related to salaries and benefits for additional employees hired to facilitate the growth of the Company, professional fees for TSXV filing, external audit and tax compliance services; and (iii) partially offset by the decrease of $0.9 million in fair value loss of warrant liability.

- The net loss for the six months ended October 31, 2021, increased by $3.7 million compared to the same period in the prior year mainly due to: (i) the increase of $3.3 million in research and development expenses mainly related to the Aldersyde Facility; (ii) the increase of $2.2 million in general and administrative expenses due to salaries and benefits for additional employees hired to facilitate the growth of the Company, and professional fees incurred related to the listing of TSXV in June 2021, TSXV filing, external audit and tax compliance services; and (iii) partially offset by $1.5 million in fair value change of warrant liability ($0.5 million fair value gain of warrant liability for the six months ended October 31, 2021 compared to $1.0 million fair value loss of warrant liability).

SECOND QUARTER OPERATIONAL OVERVIEW

Demonstration Facility at Aldersyde, Alberta

Cielo is focused on increasing production rates at the Aldersyde Facility to a commercial level that supports revenue generation. Earlier this year, the Company implemented various process modifications which resulted in an improvement in production performance and enabled Cielo to achieve continuous production. However, these process modifications created unintended system bottlenecks and plugging issues which resulted in decreased operational run times (the “System Issues”). Immediate efforts to rectify the System Issues proved unsuccessful. In August 2021, Cielo commenced a comprehensive analysis of the Aldersyde Facility by utilizing an internal engineering team, with the support of third-party engineering consultants and technical experts.

Utilizing the findings from this comprehensive analysis, the engineering design work at the Aldersyde Facility has continued since August 2021, with the focus on reducing downtime to achieve steady-state production. Engineering modification and design are being undertaken on three elements of the existing process: (i) the process infeed mixing system, (ii) reactor modifications and improvements, and (iii) the biomass waste system management (together, the “Aldersyde Project”). The estimated cost requirement to achieve steady-state production on a commercial scale at the Aldersyde Facility is approximately $11.5 million until the end of 2022. The Company’s schedule for the Aldersyde Project is as follows:

- Engineering design - commenced - August 2021
- Initiation of equipment procurement - commenced - December 2021
- Construction initiation - to commence - January 2022
- Commissioning and start-up - forecast - April 2022

On December 16, 2021, the Company announced that it continued to progress towards the completion of these milestones, including completion of its engineering design work and initiation of equipment procurement for the Aldersyde facility.

Desulfurization

On September 27, 2021, Cielo began the final commissioning procedures for the safe start-up of the desulphurization unit for the initial run. The Company completed mechanical, instrumentation, and electrical verification processes required for the desulphurization unit to start up. The desulphurization unit was then purged, and loop checks were completed followed by commencement of the warmup sequence. Diesel feed, with a high sulfur content, averaging 800 parts per million (“ppm”), was initiated into the desulphurization unit, after which the unit was monitored and tuned to verify and record the specific on-site parameters and metrics of operation and performance. This initial run, and the operation of the desulphurization unit, have met the operational expectations based on the Company’s design parameters.

The utilization of the Company’s desulphurization unit is anticipated to enable Cielo to generate higher revenue from its waste-to-fuel products. Diesel with a sulphur content that complies with road diesel requirements in North America, can be sold at a higher price, compared to diesel with higher sulphur content.

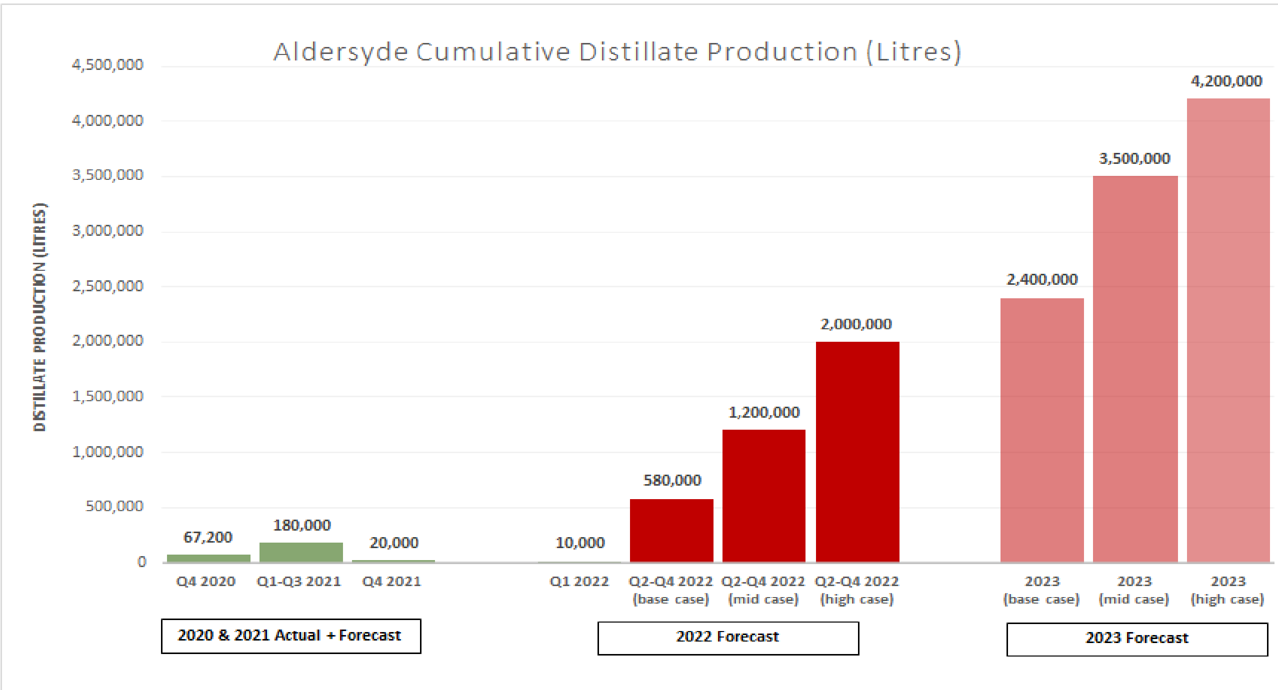
OUTLOOK

Demonstration Facility at Aldersyde, Alberta

The objectives of the Aldersyde Facility are focused on demonstrating the steady-state production of distillate for the sale of diesel and naphtha derived from wood waste utilizing used motor oil as the carrier fluid. The facility will also serve the purposes of generating revenue, product yield and control systems optimization, operations training, maintenance planning, and establishing best practices. Operational experience and philosophy from the Aldersyde Facility will translate to larger full-scale facilities. The Company anticipates that the first phase of construction will commence on schedule in January 2022, following by commissioning and start-up, anticipated to begin by April 2022.

Based upon the historic production level realized at the Aldersyde Facility and the expected outcomes from the Aldersyde Project, Cielo is in a position to predict the cumulative volumes of distillate production at the Aldersyde Facility during 2022 and 2023 with base, mid-case, and high-case scenarios.

The graph below illustrates the historical distillate production that Cielo produced into its storage tanks over the period from Q4 2020 to November 12, 2021. The graph also illustrates the forecasted range of distillate production for 2022 and 2023 calendar years.



2020 and 2021 Actual and Forecast – The 2020 production was realized while operating the facility in a batch mode. Modifications to the Aldersyde Facility were made in early Q1 2021 where continuous production was attained but not sustained due to operational bottlenecks and plugging issues. Currently the facility continues to operate at a reduced rate as the Company addresses the System Issues.

2022 Forecast – The Q1 2022 production forecast reflects the Aldersyde Facility downtime associated with the construction activities for the Aldersyde Project. Upon completion and successful commissioning of the Aldersyde Project, a range of forecasted cumulative distillate production volumes are presented for the balance of 2022 as the Aldersyde Facility is anticipated to perform in a steady-state mode with significantly reduced downtime.

2023 Forecast – The 2023 full year forecast reflects a range of cumulative distillate production with increased volumes compared to 2022, as a result of the anticipated continuous operational and systems improvements.

Research & Development (R&D) Facility at Fort Saskatchewan, Alberta

The R&D Facility is a scaled-down version (60 LPH) of a full-scale facility. The purpose of this R&D Facility is to achieve a high degree of detailed performance characteristics, feedstock yields, optimum carrier fluid design, reactor design, catalyst experimentation and a detailed material balance for the system. This R&D Facility is expected to give Cielo the flexibility to experiment with a greater range of pressure and temperature regimes, reactor configurations and catalysts to greatly enhance the quality of the fuel yield. The detailed lab-grade engineering output is expected to facilitate the design of a full-scale commercial plant with predictable performance, capital cost expectations and operating cost metrics.

Current work at the Company's Fort Saskatchewan location is focused on the design, procurement, and construction of the R&D Facility. The estimated cost on the design, procurement and construction of the R&D Facility is approximately $11.0 million. The primary objective is to produce high quality engineering data for the front-end engineering design of a full-scale waste-to-fuel facility. Thereafter, the R&D Facility will undertake continuous testing of plastics, organics, railway ties, and other waste products. The Company has made progress on meeting milestones related to construction and commissioning of the R&D Facility as follows:

- Engineering design and document approval - commenced - August 2021
- Detailed engineering - completed - November 2021
- Equipment procurement- completed - November 2021
- Construction - commenced - November 2021
- Vessel and equipment fabrication - to commence - January 2022
- Structural fabrication - to commence - February 2022
- Commissioning and start-up - forecast - August 2022
- Pilot testing and control experimentation start-up - forecast - August 2022

As of the date of this MD&A, the Company has completed the detailed engineering design, procured the necessary equipment, and commenced construction of the 60 LPH R&D Facility.

Full-Scale Facility at Fort Saskatchewan, Alberta

Once testing and engineering data analysis from the R&D Facility concludes, the Company plans to commence concept work and front-end engineering design for the Full-Scale Facility. Cielo then intends to construct the Full-Scale Facility with specific capacity design, production rates, product revenue streams, operating costs, capital costs and overall economic metrics determined based on data from the R&D Facility as well as the operational characteristics observed at the Aldersyde Facility. Contemplation of the design engineering of the Full-Scale Facility is expected to commence in early 2023.

SELECTED FINANCIAL INFORMATION

(Thousands of dollars)	October 31, 2021	April 30, 2021 (RESTATED)
Total assets	53,654	45,192
Total non-current liabilities	1,365	1,574
Working capital deficiency	(8,159)	(688)

	Three months ended October 31,		Six months ended October 31,	
(Thousands of dollars, except per share amounts)	2021	2020 (RESTATED)	2021	2020 (RESTATED)
Total revenue	-	-	-	4
Financing costs	851	1,155	973	1,344
General and administrative	1,653	467	3,210	1,007
Research and development	2,109	360	3,791	503
Net loss	(4,841)	(2,929)	(7,880)	(4,205)
Net loss per share – basic & diluted	(0.01)	(0.01)	(0.01)	(0.02)

General and Administrative	Three months ended October 31,		Six months ended October 31,	
(Thousands of dollars)	**2021**	**2020**	**2021**	**2020**
Professional fees	825	264	1,540	612
Salaries and benefits	571	92	1,119	131
Property tax and insurance	133	62	299	143
Office and administrative	124	49	252	121
Total	**1,653**	**467**	**3,210**	**1,007**

Research and Development	Three months ended October 31,		Six months ended October 31,	
(Thousands of dollars)	**2021**	**2020**	**2021**	**2020**
Operating expenses	1,463	58	2,509	178
Personnel costs	646	302	1,282	325
Total	**2,109**	**360**	**3,791**	**503**

General and Administrative

General and administrative expenses increased by $1.2 million and $2.2 million for the three and six months ended October 31, 2021 respectively, compared to the same periods in the prior year. The increases were related to salaries and benefits for additional employees hired to facilitate the growth of the Company, professional fees for TSXV filing, external audit and tax compliance services. For the six months ended October 31, 2021, the increase was also due to the professional fees related to the listing of TSXV in June 2021.

Research and Development

Research and development expenses increased by $1.7 million and $3.3 million for the three and six months ended October 31, 2021 respectively, compared to the same periods in the prior year. The increases were mainly related to the Aldersyde Project. In addition, the Aldersyde Facility was shut down due to the COVID-19 pandemic from May to August 2020.

SUMMARY OF QUARTERLY RESULTS

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

(Thousands of dollars, except per share amounts)	2022		2021 (RESTATED)				2020 (RESTATED)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	-	-	-	-	-	4	-	-
Net loss	(4,841)	(3,039)	(33,884)	(1,620)	(2,929)	(1,276)	(270)	(1,810)
Net loss per share - basic & diluted	(0.007)	(0.005)	(0.067)	(0.005)	(0.010)	(0.005)	(0.001)	(0.008)

The net loss for the three months ended October 31, 2021 was $4.8 million, an increase of $1.8 million compared to the first quarter of fiscal 2022, and an increase of $1.9 million compared to the same period in prior year.

The increase of $1.8 million in net loss was due to (i) higher financing costs of $0.7 million mainly related to the transaction fee and the commission for the $4.0 million convertible debenture financing in August 2021; (ii) higher research and development costs of $0.4 million mainly related to the Aldersyde Project; and (ii) the fair value gain of warrant liability of $0.5 million in the first quarter of fiscal 2022. The increase of $1.9 million in net loss was due to higher research and development expenses mainly related to the Aldersyde Facility and higher general and administrative expenses. See "Second Quarter Financial Overview" for additional information.

Fluctuations in net loss for each quarter generally relate to the fair value change of warrant liability, and the amounts of financing and research and development expenses the Company incurred during the respective quarter. The business of Cielo, when in commercial production, is expected to exhibit some seasonality and cyclicality due to overall consumption patterns of refined products, broad macro-economic activity, and extenuating events. Low carbon fuels act as both substitutes and measures to reduce carbon intensities of fossil fuels. Seasonal increases in demand for heating oil can increase diesel prices as refiners may produce more heating oil to meet demand. In addition, broad economic activity, and extenuating events, such as COVID-19, can negatively impact the consumption of fuels. In some cases, consumer preferences and rates of adoption of low carbon fuels may partially or completely offset any declines as a result of broad economic declines.

LIQUIDITY AND CAPITAL RESOURCES

Cielo's primary objective for managing liquidity and capital resources is to ensure the Company has sufficient funds available for research, development and other corporate activities. As at October 31, 2021, the Company had $7.3 million of cash, and working capital deficiency of $8.2 million, compared to $0.7 million deficiency as at April 30, 2021. The increase in working capital deficiency of $7.5 million was mainly due to: (i) the decrease in cash balance which was used to fund research, development and corporate activities; (ii) the addition of the mortgage loan for the asset purchase in Fort Saskatchewan, Alberta; and (iii) partially offset by the decrease in short-term warrant liability upon the exercise of warrants. The initial term of the mortgage loan will end in August 2022 and Cielo has the option to renew the loan for a further period of six months in August 2022. Cielo is planning to either renew or replace the mortgage loan by the end of the initial term in August 2022.

The Company has not reached planned commercial operations or generated sufficient operational cash flows to meet the Company's planned growth or to fund research, development and corporate activities. The Company will require additional capital to fund costs relating to research, development and other corporate activities over the next year and beyond, and to fund payments of short-term indebtedness as they become due and otherwise fund the working capital deficiency. The Company will continue to explore alternatives to generate additional financing, which may include raising additional equity and debt or entering into strategic partnerships; however, there is no assurance that these initiatives will be successful, and they may depend on prevailing commodity prices, general economic conditions and the Company's success in its research and development activities. See "Going Concern" and "Financing Activities" for additional information.

Financing Activities

Mortgage Loan for Asset Purchase in Fort Saskatchewan, Alberta

In August 2021, the Company entered into a $12.0 million Loan with FCF and KV. The Loan is subject to an annual interest rate of 6% and is secured by charges against Cielo's land and facilities in Fort Saskatchewan and Aldersyde, Alberta. The 12-month term is subject to automatic renewal at the end of the original term for further six-month terms in consideration for a renewal fee equal to 1.5% of the then outstanding balance, subject to the Lenders' rights to terminate the automatic renewal at their discretion. The Loan is subject to interest payments only and Cielo is entitled to repay the Loan at any time before maturity without penalty, in whole or in part. The loan agreement includes a special covenant in relation to the Company's market capitalization: (i) if the Company's market capitalization is below $250.0 million but above $150.0 million, a $1.0 million loan repayment is required; (ii) if the Company's market capitalization is below $150.0 million but above $100.0 million, an additional $1.0 million loan repayment is required; and (iii) if the market capitalization is below $100.0 million, an additional $1.0 million loan repayment is required. Subsequent to Cielo entering into this Loan agreement, the market capitalization of the Company was below $150.0 million on certain trading days. As a result, KV requested a total loan repayment of $2.0 million. As of the date of this MD&A, Cielo is in the process of negotiating with the Lenders on this special loan covenant and has not made the repayment of $2.0 million.

In connection with the Loan, Cielo issued 12 million non-transferable share purchase warrants (the "Bonus Warrants") as inducement for the Loan. Each Bonus Warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.00 for a period of 36 months, however, if the Loan is repaid in whole or in part during its term, a pro rata number of the total Bonus Warrants will have their term reduced to the date that is 90 days from such repayment.

Convertible Debenture Financing

In August 2021, the Company completed a non-brokered, convertible debenture financing, and received gross proceeds of $4.0 million (the "Financing"). Pursuant to the Financing, the Company issued 4,000 non-interest-bearing, unsecured convertible debentures (the "Debentures"), each issued at $1,000 per Debenture, on a prospectus-exempt basis, the principal amount of the Debentures being convertible into common shares at $1.25 per share during the 12-month term of the August 2021 Debenture. Following the issuance of the debentures, the full $4.0 million of the principal amount was converted into 3,200,000 common shares of the Company at the conversion price of $1.25 per common share. The Debentures and the common shares issued upon the conversion therefore are subject to a statutory 4-month hold period expiring on December 4, 2021.

The net proceeds will be used for engineering work for the facility to be built on land acquired by Cielo in Fort Saskatchewan, Alberta, or otherwise in the sole discretion of the Company. In connection with the Financing, Cielo paid transaction fees to FCF equal to $280,000 and a commission to a third party equal to $320,000.

On August 3, 2021, the Company completed a non-brokered, convertible debenture financing, and received gross proceeds of $4.0 million (the "Financing"). Pursuant to the Financing, the Company issued 4,000 non-interest-bearing, unsecured convertible debentures (the "Debentures"), each issued at $1,000 per Debenture, the principal amount of the Debentures being convertible into common shares at $1.25 per share during the 12-month term of the Debentures. Following the issuance of the Debentures, on September 7, 2021, the full $4.0 million of the principal amount was converted into 3,200,000 common shares of the Company at the conversion price of $1.25 per common share. The Debentures and the common shares issued upon the conversion therefore were subject to a statutory 4-month hold period which expired on December 4, 2021.

Share Issuance upon Conversion of Debentures

In June 2021, the principal amount of $709,500 was converted into 12,462,500 common shares of the Company at the conversion prices between $0.05 to $0.08 per common share.

Share Issuance upon Exercise of Warrants

In September 2021, 3,750,000 outstanding warrants were exercised at the exercise price of $0.135 per share. The Company issued 3,750,000 common shares and received gross proceeds of $506,250.

In May 2021, 20,589,474 outstanding warrants were exercised at the exercise prices between $0.09 to $0.25 per share. The Company issued 20,589,474 common shares and received gross proceeds of $1,918,963.

Share Issuance upon Exercise of Options

In May 2021, 445,000 stock options were exercised at the exercise price of $0.10 per share. The Company issued 445,000 common shares and received gross proceeds of $44,500.

Repayment of Promissory Note

In August 2021, the Company made a payment of $1,003,575 to 1823741 Alberta Ltd., to repay the principal and interest amounts owing to 1823741 Alberta Ltd.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2021, Cielo did not have any off-balance sheet arrangements in place that would materially impact its financial position or results of operations.

RELATED PARTY TRANSACTIONS

1888 Inc

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

For the three and six months ended October 31, 2021, Cielo charged 1888 Inc total expenses of $6,300 and $13,255 (2020 - $15,988, and $33,220), respectively, in relation to 1888 Inc using Cielo's office space for business purpose, and other business expenses that Cielo paid on behalf of 1888 Inc. As at October 31, 2021, the amount receivable from 1888 Inc was $199,471 (April 30, 2021 - $186,216).

Renewable U Energy Inc. ("Renewable U")

In September 2021, the Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations, who were also directors and shareholders of Renewable U, both resigned from their positions with Cielo in order to focus their efforts on Renewable U, a privately-owned Alberta corporation. For the three and six months ended October 31, 2021, the CEO, director and shareholder of Renewable U, Ryan Jackson was also a Director of Cielo.

The Company entered into nine (9) memorandums of understanding ("MOUs") in total with Renewable U and its affiliates to build and commission waste to fuel facilities, at no cost to Cielo other than internal costs, one each in Grand Prairie, Alberta, Calgary, Alberta, Medicine Hat, Alberta, Lethbridge, Alberta, Halifax, Nova Scotia, Winnipeg, Manitoba, Kamloops, British Columbia, Toronto, Ontario, and a location to be determined in the United States. The Company and Renewable U intend to amend the MOU for Lethbridge, Alberta to another location.

Pursuant to the MOUs, the Company will also be responsible for overseeing the planning, construction, commissioning, and operation of each facility and will receive a management fee for the planning and construction of each facility equal to 7% of the project costs for such facility subject to certain exclusions and will continue to receive management fees once operations begin based on industry standards. For the three and six months ended October 31, 2021, the Company charged Renewable U management fees and recovery of expenses of $42,700, and $87,667, respectively, and made a credit adjustment of $56,463 to the recovery of expenses related to fiscal Q4 2021 in fiscal Q1 2022. The management fees were recorded as other expenses (income) in the statements of loss and comprehensive loss. As at October 31, 2021, the amount receivable from Renewable U was $67,123 (April 30, 2021 - $97,194).

Brand U Agency Inc. ("Brand U")

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

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

In September 2021, Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations, each owned 1/3 of the total outstanding shares of Brand U, both resigned from their positions with Cielo. On October 25, 2021, the Company terminated the service agreement with Brand U.

OUTSTANDING EQUITY

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

(Number of common shares, warrants, and stock options)	**October 31, 2021**	**April 30, 2021**
Common shares	652,129,912	611,682,938
Total common shares issued and outstanding	**652,129,912**	**611,682,938**
Convertible debentures	-	12,462,500
Warrants	12,000,000	24,331,159
Stock options	950,000	1,395,000
Total common shares potentially issuable	**12,950,000**	**38,188,659**
Total	**665,079,912**	**649,871,597**

On December 3, 2021, Cielo issued ten million (10,000,000) common shares to 1888 Inc, in consideration for terminating the License Agreement and transferring the patents and all related intellectual property to Cielo. The total number of issued and outstanding common shares as of the date of this MD&A is 662,129,912.

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. For the three and six months ended October 31, 2021 and 2020, a summary of significant accounting policies were disclosed in Note 4 to the unaudited condensed consolidated interim financial statements. For the years ended April 30, 2021 and 2020, a summary of significant accounting policies were disclosed in Note 4 to the audited financial statements.

Significant estimates are used for, but not limited to, the measurement of the fair value of convertible debentures, warrant liability, share-based payment transactions, and deferred income taxes.

RESTATEMENT OF OCTOBER 31, 2020 COMPARATIVE PERIOD FINANCIAL INFORMATION

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

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

- During the year ended April 30, 2018, the Company completed a $3.5 million financing arrangement with BJK Holdings Ltd., which included $3.5 million of debt financing as well as the issuance of 25,000,000 share purchase warrants (the “BJK warrants”). At the time of recognizing these transactions in the April 30, 2018 audited financial statements, the Company initially recorded the face value of the debt component of the financing at $3.5 million and recorded the estimated fair value of the warrants of $3.3 million as a financing expense in the Statement of Net and Comprehensive Loss with an offsetting entry recorded in contributed surplus in the Statement of Changes in Shareholders’ Equity. The number of warrants and the exercise price of the warrants from this transaction were subject to adjustments for any reorganizations or dilutive events during their term. In preparation of the April 30, 2021 financial statements, the Company determined that the warrant adjustment clause should have resulted in the accounting for the BJK warrants as derivative instruments since their initial recognition rather than as equity instruments in the original accounting. Derivative instruments are required to be recorded at fair value each reporting period, which should have resulted in a warrant liability revalued at each period end incorporating any adjustments to the number of BJK warrants outstanding and their exercise price. As part of the process of updating the cumulative and comparative period impacts of this error, the Company also adjusted the amounts initially recorded for the debt component of the financing and the fair value of the warrants due to errors identified in the initial valuation methodology.

The restatement impact of the two errors described above on the comparative period financial statements have been summarized in the table below. In addition to the two errors, the restatements summarized below include a reclassification of the accelerated amortization of pre-paid interest expense required upon the early conversion of certain convertible debentures that had previously been recognized as “Loss (gain) on settlement of debt with shares” in the Statements of Net and Comprehensive Loss and has now been presented as part of “Financing costs”. This reclassification was recorded to conform with the current period presentation.

(Thousands of dollars except per share amounts)	**Three months ended October 31, 2020**			**Six months ended October 31, 2020**		
Financial Statement Caption	**Amount previously reported**	**Amount restated**	**Change**	**Amount previously reported**	**Amount restated**	**Change**
Financing costs	561	1,155	594	1,105	1,344	239
Loss on settlement of debt with shares	282	-	(282)	471	-	(471)
Fair value change in warrants	-	878	878	-	1,034	1,034
Net loss and comprehensive loss	(1,739)	(2,929)	(1,190)	(3,403)	(4,205)	(802)
Loss per share	(0.006)	(0.011)	(0.005)	(0.006)	(0.015)	(0.009)

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There have been no new accounting standards and interpretations issued by the International Accounting Standards Board that have a material impact on the Company's unaudited condensed consolidated interim financial statements for the three and six months ended October 31, 2021, and 2020.

RISK FACTORS

An investment in the securities of the Company 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 MD&A dated September 17, 2021, available on SEDAR at www.sedar.com for a description of these risk factors. Since the date of the annual MD&A, the Company's following risk factors have materially changed:

- Risk factors related to the License Agreement between Cielo and 1888 Inc have been eliminated through the termination of the License Agreement and the execution of the IP Purchase Agreement, which closed on December 3, 2021.
- The Senior Vice President of Global Development & Indigenous Relations and Senior Vice President of Corporate Development & Investor Relations of Cielo, who were also directors and shareholders of Renewable U, both resigned from their positions with Cielo in September 2021. In addition, Mr. Don Allan resigned from his positions of President, CEO and Director of 1888 Inc on November 10, 2021, and he announced his intention to retire from his position of President of the Company effective February 1, 2022, and in preparation for this transition, Mr. Don Allan also tendered his resignation as Chair of the Board of the Company, effective immediately. These changes have significantly reduced the risks of conflict of interests, which could have had a material adverse effect on the Company's business.

ADDITIONAL INFORMATION

Additional information related to Cielo is available on SEDAR at www.sedar.com.