

CIELO GOLD CORP.

Second Floor, 8838-120th Street, Surrey, British Columbia, V3W 3N4

January 17, 2013

Blue Horizon Bio-Diesel Inc.
Suite 201, 4811-48 Street
Red Deer, Alberta, T4N 1S6

Attention: Don Allan

Dear Sirs/Mesdames:

Further to our recent conversations, the purpose of this letter is to set out a binding, interim agreement between the parties regarding the transactions we have discussed.

In particular, this letter sets out a binding, interim agreement (this "**Interim Agreement**") between Cielo Gold Corp. ("**Cielo**") and Blue Horizon Bio-Diesel Inc. ("**BHBD**") regarding Cielo's acquisition sale of certain assets (the "**Purchased Assets**") in respect of BHBD's bio-diesel processing and refinery business (the "**BHBD Business**") and Cielo's assumption of certain liabilities in respect of the BHBD Business (the "**Assumed Liabilities**") on the terms and conditions set out herein as will be more particularly set out (in complete replacement hereof) in definitive agreements between Cielo, BHBD and, as applicable, BHBD's parent corporation Blue Horizon Energy Inc. ("**BHEI**") and its parent corporation Blue Horizon Industries Inc. ("**BHII**") to be negotiated by the parties on the terms and conditions set out herein (the "**Definitive APA**").

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Purchase and Sale.** Subject to the terms of this Interim Agreement and, upon execution, the Definitive APA will supercede and replace this Interim Agreement., Cielo will, on the Closing Date (defined below) as contemplated in the Definitive APA:

- (a) purchase from BHBD, and from BHEI and BHII to the extent applicable (collectively, as applicable, the "**Vendors**"), the Purchased Assets; and
- (b) assume from the Vendors the Assumed Liabilities,

free and clear of all encumbrances, liens, mortgages and other charges (collectively, "**Encumbrances**") except those expressly agreed in writing between the parties (collectively, "**Permitted Encumbrances**"), for the aggregate purchase price of CDN\$4,250,000 (the "**Purchase Price**") plus applicable taxes, paid in the manner contemplated by Section 3.

2. **Closing Date.** The parties intend that the transactions contemplated by this Interim Agreement will be completed on or about March 29, 2013, or such other date as may be agreed in writing between the parties from time to time (the "**Closing Date**"). In addition, on the

Closing Date, Mr. Don Allan will be appointed to the board of directors of Cielo and be appointed as its CEO on terms to be mutually agreed upon by the parties.

3. **Payment of Purchase Price.** On the Closing Date, the Purchase Price will be fully paid by Cielo issuing to BHBD two convertible debentures (collectively, the "**Convertible Debentures**") as follows, on terms and conditions to be mutually agreed upon by the parties in accordance with the following:

(a) **First Convertible Debenture**—one interest-bearing (at a 6% annual rate) Convertible Debenture in the amount of CDN\$2,000,000, due on the first anniversary of such Convertible Debenture (for such Convertible Debenture, the "**Due Date**"), payable in cash or, at the election of Cielo, in common shares of Cielo at a CDN\$0.25 per-share price (for such Convertible Debenture, the "**Conversion Price**"),

(b) **Second Convertible Debenture**—one interest-bearing (at a 6% annual rate) Convertible Debenture in the amount of CDN\$2,250,000 due on the second anniversary of such Convertible Debenture (for such Convertible Debenture, the "**Due Date**"), payable in cash or at the election of Cielo, common shares of Cielo at the greater of (A) the 10-day volume-weighted average of the trading price of the common shares of Cielo on the date of payment, or (B) CDN\$0.25 per share (for such Convertible Debenture, the greater of (A) or (B) being the "**Conversion Price**"), and

(c) **Conversion Right (after Due Date)**—for each Convertible Debenture, BHBD shall have the right after the Due Date therefor to convert the principal and interest payable by Cielo into common shares of Cielo at the Conversion Price therefor.

4. **Allocation and Adjustment.** The parties agree to allocate the Purchase Price among the Purchased Assets in accordance with the Definitive APA, and for greater certainty the Purchase Price will be adjusted downward (pro rata amongst the Convertible Debentures) for any reduction, loss or impairment in the Purchased Assets.

5. **Taxes.** Cielo shall be liable for and shall pay all federal, provincial and state sales taxes (including any GST, PST, HST and sales taxes and all other taxes and registration fees of any jurisdiction properly payable by Cielo) in connection with the transactions contemplated hereby (excluding for certainty any income taxes payable by the Vendors). Without limiting the generality of the foregoing, the parties shall claim the benefit of any provisions of applicable law that allows all or any part of the Purchased Assets or Assumed Liabilities to be transferred by the Vendors to Cielo without payment of any tax, including any exemption for sales tax relating to production equipment or for goods acquired for resale. Cielo shall deliver to the Vendors, and the Vendors shall collect from Cielo on the Closing Date, the amount of the PST, GST and HST imposed on Cielo with respect to the transactions contemplated hereby. The Vendors shall remit the full amount of the PST, GST and HST collected from Cielo and file the appropriate returns with the applicable taxation authorities in respect thereof. If applicable, before the Closing Date, the parties will use reasonable commercial efforts to obtain for tendering at the Closing Date a copy of an appropriate clearance certificate in accordance with the provisions of section 99 of the *Social Service Tax Act* (British Columbia).

6. **Purchased Assets.** The Purchase Assets will consist of all of the assets of the Vendors used in connection with the BHBD Business, free and clear of all Encumbrances other than Permitted Encumbrances, including without limitation:

(a) **IP Assets**—all intellectual property rights used by the Vendors in connection with the BHBD Business, including

(i) all research and development, drawings, designs and licenses relating to the BHBD Business and all goodwill in respect of the BHBD Business

(ii) in particular, all of the Vendors' interest in and to the patent pending technical process that combines hydrocarbons and low grade cellulose products to produce high grade renewable diesel fuel products and other intellectual property licensed ultimately from Ecotec Fuels LLC and/or ADP Holdings Ltd. pursuant to that certain Exclusive License Agreement dated September 21, 2011, as amended from time to time (the "**Ecotec License**"),

but for greater certainty excluding any right to the name "Blue Horizon".

(b) **Demo Unit**—all of the Vendors' right, title and interest in and to the catalytic fractioned conversion research and development demonstration unit leased on a capital basis from FS Business Enterprises Inc. ("**FS**") pursuant to that certain Equipment Lease Agreement dated December 13, 2012 (the "**FS Master Agreement**"); and

(c) **Leased Property**—the property leased from Autobody Services (Red Deer) Ltd. located at B, 4016, 39139 Hwy 2A, Red Deer County, AB T4S 2M4 (the "**Property Lease**").

7. **Assumed Liabilities.** The Assumed Liabilities will consist only of the following:

(a) **License**—all obligations under the Ecotec License except for those that have arisen, or that arise in respect of facts that occurred, before the Closing Date,

(b) **Demo Unit Lease**—all obligations pursuant to the Equipment Lease Agreement between the Vendors and FS delivered under the FS Master Agreement except for those that have arisen before, or that arise in respect of facts that occurred, before the Closing Date, and for greater certainty excluding all liabilities of the Vendors in respect of the Promissory Notes delivered pursuant to the FS Master Agreement, and

(c) **Property Lease**—all obligations under the Property Lease except for those that have arisen, or that arise in respect of facts that occurred, before the Closing Date.

8. **Negotiation of Definitive Agreements.** The parties will work diligently, reasonably and in good faith to settle the terms of the Definitive APA and the Convertible Debentures, and to conclude these negotiations to meet the timetable set out as follows:

January 17, 2013—Interim Agreement Signed; Due Diligence Commences

January 21 to February 6, 2013—First draft of APA prepared, Due Diligence

Continues; Definitive APA signed as soon as practicable with form of Convertible Debenture attached

March 29, 2013—Due Diligence Complete, removal of conditions and Closing Date

The terms of the Definitive Agreements will be consistent with the terms of this Interim Agreement, except as follows:

(a) as this Interim Agreement is being entered into at the commencement of the due diligence period, the parties will negotiate in good faith to ensure that the Definitive Agreements adequately deal to the satisfaction of both parties with any issues arising from the due diligence to be undertaken by Cielo in connection with this Agreement;

(b) notwithstanding the foregoing, no investigations made by or on behalf of a party at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by any person herein or pursuant to the Definitive Agreements, and

(c) without restricting the generality of the foregoing, the Definitive Agreements will contain

(i) customary closing conditions, in part based on those set out in this Interim Agreement,

(ii) obligations for each party to make customer transactional deliveries at or before the Closing Date, including closing certificates, scrutineers' reports, copies of resolutions or minutes of meetings, instruments of transfer, and legal opinions as reasonably required by each party, and

(iii) representations, warranties and indemnities (including procedural elements with respect thereto) from and in favour of each party as appropriate based on the due diligence and the subject of the transactions contemplated hereunder.

9. **Term and Termination.** This Interim Agreement may be terminated as follows:

(a) by either party upon written notice if the Definitive APA is not entered into by the close of business on February 6, 2013;

(b) by either party upon seven (7) days' written notice if the other party has breached the terms of this Agreement and has not, during such 7-day notice period, cured same to the reasonable satisfaction of the terminating party.

10. **Closing Conditions.** In addition to further conditions to be decided by the parties pursuant to the Definitive APA, the obligation of each party to complete the transactions contemplated hereby will be subject to the satisfaction of, or compliance with, on or before the Closing Date, the conditions set forth below:

(a) **Mutual**—the following are conditions to each party's obligations and are hereby acknowledged to be for the exclusive benefit of each such party and may be unilaterally waived by each such party:

(i) all representations and warranties of the other party set forth in this Interim Agreement (and, in replacement thereof, the Definitive APA) shall be true and correct on the Closing Date with the same force and effect as though made on the Closing Date,

(ii) all of the terms, covenants, agreements and conditions of this Interim Agreement to be complied with or performed by the other party on or before the Closing Date shall have been complied with or performed,

(iii) it shall have received from the other party all documentation, including the documents and certificates required to be delivered to it on or before the Closing Date, as set out in the Definitive APA,

(iv) all required approvals (including director and shareholder approvals), consents, authorizations and waivers relating to the consummation of the transactions hereby contemplated shall have been obtained from all relevant government and regulatory bodies, including the CNSX, if required,

(v) no action or proceeding, judicial (at law or in equity) or extrajudicial shall be pending or threatened by any person to enjoin, restrict or prohibit the purchase and sale contemplated hereby,

(vi) there shall be no impediment, prohibition or restriction existing at the Closing Date to, and no offence would occur or result under any applicable statute or regulation to which the transactions contemplated hereby would be subject to by the Closing of the transactions contemplated hereby,

(b) **Purchaser's Conditions**—the following are conditions to Cielo's obligations and are hereby acknowledged to be for the exclusive benefit of Cielo and may be unilaterally waived by Cielo:

(i) no action or proceeding, judicial (at law or in equity) or extrajudicial shall be pending or threatened by any person to enjoin, restrict or prohibit Cielo's ownership, use, or enjoyment of the Purchased Assets as of the Closing Date or its right from and after the Closing Date to conduct and develop the BHBD Business and the Purchased Assets,

(ii) there shall not have occurred any material change, change of material fact or any development that could result in a material adverse change or adverse

change of material fact in the business, financial results, properties, operations or affairs of BHBD,

(iii) all necessary corporate action by the Vendors required to authorize the sale and transfer of the Assets to Cielo and implement this Agreement or any other agreements incidental thereto, shall have been taken,

(iv) Cielo shall have completed a due diligence review of the BHBD (and, to the extent relating to the Purchased Assets or Assumed Liabilities, the other Vendors) and its and their business, affairs, properties, assets, records and liabilities to, and the results thereof shall be satisfactory in the sole discretion of Cielo and its counsel, and

(v) the Vendors shall have received any shareholder and regulatory approvals as may be required.

If any of the conditions for the exclusive benefit of a party have not been fulfilled at or prior to the Closing Date to its satisfaction, it shall be entitled, by notice to the other party prior to the completion of the Closing, to (x) terminate its obligations hereunder and this Agreement effective as of the time of such notice, (y) extend the date for performance thereof in its sole discretion, or (z) proceed with the transaction contemplated herein (which option such party will be deemed to have selected if no such notice is given prior to the completion of the transactions contemplated herein).

11. **Representations and Warranties.** The parties represent and warrant to each other as follows as of the date of this Interim Agreement (on the understanding that further representations and warranties will be given in the Definitive APA as at its date as well as at the Closing Date):

(a) **Mutual**—each party represents and warrants as follows:

(i) its financial statements and public filings fairly present the financial condition and business operations of it at the dates of said statements and filings and the results of its operations for the periods covered thereby,

(ii) it has all necessary power, authority and approval to enter into this Interim Agreement, and to perform its binding respective obligations hereunder, and its Board of Directors has approved the entry of this Agreement and the transactions contemplated hereby,

(iii) the execution of this Interim Agreement and the consummation of the transactions contemplated herein will not in any material respect violate, be in conflict with, result in a breach of, constitute a default, or cause the acceleration of any obligation of its constating documents, any agreement, instrument, license, permit or authority to which it is a party, or any judgment, decree, order, statute, rule or regulation applicable to it,

(iv) it has taken all necessary or desirable actions, steps and other proceedings to approve or authorize, validly and effectively, the entering into, and the execution, delivery and performance of this Interim Agreement, and this Interim Agreement is a legal, valid and binding obligation enforceable against them in accordance with its terms subject to (A) bankruptcy, insolvency, moratorium, reorganization and other laws relating to or affecting the enforcement of creditors' rights generally; and (B) the fact that equitable remedies, including the remedies of specific performance and injunction, may only be granted in the discretion of a court, and

(v) no commission or other remuneration is payable or will be payable to any broker, agent or other intermediary who has acted for the it in connection with the transactions contemplated hereby.

(b) *Vendors*—BHBD, on behalf of itself and the Vendors, represent and warrant that the Vendors own and have good title to all of the Purchased Assets in good repair and working order (reasonable wear and tear excepted), and to its knowledge the Vendors, in the conduct of the BHBD Business, are not making any unlawful use of any confidential information, copyrighted materials, know-how, or trade secrets of any third party, including, without limitation, any former employer of any present or past employee of a Vendor.

(c) *Cielo*—Cielo represents and warrants that, as of the date of this Interim Agreement, Cielo's capital stock consists of common shares of Class "A" Common stock, of which 23,573,372 shares are issued and outstanding, and unlimited authorized shares of Class "B" Preferred stock, of which none are issued and outstanding. There are no outstanding dividends, whether current or accumulated, due or payable on any of the capital stock of the Cielo. The stock to be issued pursuant to the Definitive APA or the Convertible Debentures will be (i) duly authorized, validly issued, and outstanding; (ii) fully paid, non-assessable, and free of pre-emptive rights; and (iii) free and clear of any and all pledges, claims, restrictions, charges, liens, security interests, encumbrances, or other interests of third parties of any nature whatsoever. As of the date of this Interim Agreement, there are 4,716,674 outstanding options expiring on September 19, 2013 (which Cielo will use reasonable efforts to cancel, and in some instances replace, as soon as practicable as agreed by the parties, subject to the terms of Cielo's stock option plan and the option commitments) and 2,000,000 warrants convertible into common shares of capital stock of Cielo due to expire August, 2013, and there are no voting trusts, voting agreements, proxies, or other agreements, instruments, or undertakings with respect to the voting of any Cielo stock to which the Cielo or any of its shareholders is a party.

Except for such representations and warranties (and except as set out in the Definitive APA, or Convertible Debentures), neither party makes, and hereby expressly disclaims, any other warranties, express, statutory or implied, to the maximum extent permitted under applicable law.

12. **Covenants.** The parties agree as follows:

(a) Cielo shall be entitled from the date of execution of this Agreement until the Closing Date to carry out, at its expense, a complete inspection and review of the business, affairs, properties and records of the Vendors in respect of the Purchased Assets and Assumed Liabilities and the Vendors will provide Cielo and its representatives and advisors with full and complete access to all books, records, files, documents, properties and personnel of the Vendors along with its auditors, accountants, experts and advisors prior to the Closing Dates as requested by Cielo in connection with the transactions contemplated hereby in order that Cielo may satisfy itself as to all matters relating to the business, assets, properties operations and liabilities of the BHBD Business, to establish representations and warranties in the Definitive Agreements, and to determine the accuracy of the matters set forth herein and in the Definitive Agreements,

(b) In connection therewith, at the request of Cielo, the Vendors shall execute or cause to be executed such consents, authorizations and directions as may be necessary to permit any inspection of the BHBD Business or to enable Cielo or its authorized representatives to obtain full access to all files and records relating to the BHBD Business maintained by any regulator, governmental agency, or court. At Cielo's request, the Vendors shall cooperate with Cielo in arranging any such meetings as Cielo should reasonably request with auditors, solicitors or any other persons engaged or previously engaged to provide services to the Vendors who have knowledge of matters relating to the Vendors and the BHBD Business.

(c) Each party shall use commercially reasonable, good faith and diligent efforts to obtain, at or prior to the Closing Date, from all appropriate federal, provincial, state, municipal or other regulator or governmental body, the licenses, permits, consents, approvals, certificates, registrations and authorizations required to effect the transactions contemplated herein, including, without limitation, the approvals of the CNSX, directors or shareholders, as necessary.

(d) On or before the Closing Date, the Vendors shall use their best efforts to cause all necessary steps and corporate proceedings to be taken in order to permit the transfer of all Purchased Assets and all Assumed Liabilities in accordance with this Interim Agreement (and, once signed, the Definitive Agreement), free and clear of all Encumbrances other than Permitted Encumbrances.

(e) Each party shall use its commercially reasonable efforts to cause each of the conditions precedent for the benefit of the other party to be fulfilled on or before the Closing Date or as soon as reasonably practicable. Each party will promptly advise the other party of any facts that come to its attention which would reasonably impair its ability to complete the transactions contemplated hereby or that would cause any of its representations and warranties herein to be untrue in any material respect.

13. **Publicity.** Except as strictly required by law, neither party shall make any press release, public announcement or public disclosure about the existence and terms of this Interim Agreement or the Definitive Agreements without the prior written consent of the other party,

which can be withheld in its sole discretion. Each party will give the other a reasonable opportunity in the circumstances to review and comment on any required press release.

14. **Confidentiality.** For the purposes of this paragraph, “**Confidential Information**” shall mean any and all information about a party or its business provided to another party of this Agreement (or, on behalf of such party, its affiliates), including, without limiting the generality of the foregoing, information about the BHBD Business, this Interim Agreement, the Definitive Agreements or the business, operations, finances, services, products, suppliers, customers, affiliates, industrial or intellectual property, assets, liabilities, contractual rights and obligations, technology, expertise and know-how of the other party, all of which shall be and at all times remain the exclusive property of the party providing such information. Each party agrees that, except as may be required by law, it will not disclose or use, and will cause its affiliates, employees and agents not to disclose or use, any Confidential Information other than in connection with its performance under this Interim Agreement and the negotiation of the Definitive Agreements and performance of the steps related thereto. Upon the written request of a disclosing party hereunder, each party will return to such disclosing party all material containing or reflecting the Confidential Information and will not retain any copies, extracts or other reproductions thereof, except in the case of Confidential Information in electronic form, which shall be deleted using a commercially reasonable application or operating system-level ‘delete’ function. The obligations of confidentiality shall survive the termination of this Interim Agreement or the completion of the transactions contemplated hereunder (on the understanding that, to the extent that the Vendors’ Confidential Information forms part of the Purchased Assets, Cielo’s obligations of confidentiality therefor will be converted to obligations of the Vendors).

15. **Exclusivity.** Commencing on the signing of this Interim Agreement and until this Agreement is terminated, the Vendors will not enter into negotiations with any other party related to the purchase and sale of the Purchased Assets, the Assumed Liabilities, or the shares or securities of BHBD.

16. **Non-Solicitation.** Without the prior written consent of the other party, neither party will hire any employee or contractor of the other party or its affiliates until the day that is six months after the termination of this Interim Agreement.

17. **Severability.** If a provision of this Interim Agreement is at any time determined to be unenforceable or invalid for any reason it will be severable from the remainder of this Interim Agreement and, in its application at that time, this Interim Agreement will be construed as if it had been executed without the unenforceable or invalid provision.

18. **Governing Law.** This Interim Agreement and its application and interpretation will be governed exclusively by the laws prevailing in the Province of British Columbia without regard to its conflict of law principles, and the parties hereby submit and attorn to the exclusive jurisdiction of the courts of the province of British Columbia over any matter arising hereunder.

19. **Expenses.** Except as agreed in writing between the parties, each party will be responsible for any and all costs and expenses it incurs prior to execution of the Definitive Agreements or arising out of this Interim Agreement.

20. **Assignment.** This Interim Agreement may not be assigned by either party without the written consent of the other party.

21. **Further Assurances.** The parties shall provide all such reasonable assurances as may be required to consummate the transactions contemplated hereby, and each party shall provide such further documents or instruments required by any other party as may be reasonably necessary or desirable to effect the purpose of this Interim Agreement and carry out its provisions, whether before or after the Closing Date.

22. **Entire Agreement.** This Interim Agreement constitutes the entire understanding between the parties and replaces and supersedes all previous agreements or discussions between the parties relating to the subject matter hereof, written or oral.

23. **Amendments and Waivers.** This Interim Agreement cannot be amended except in writing executed by the parties. For greater certainty, however, the entry by the parties of the Definitive Agreements shall constitute a full replacement of this Interim Agreement as indicated therein. No waiver of any of the provisions of this Interim Agreement shall be valid unless it is in writing. No such waiver shall constitute nor be deemed to constitute a waiver of any other provision (whether or not similar) nor shall such waiver constitute a continuing waiver unless expressly so provided.

24. **Independent Legal Advice.** Each of the parties acknowledges and agrees that it has had the opportunity to seek independent legal advice in respect of all matters contemplated by this Agreement.

25. **Time of Essence.** Time shall be of the essence in this Agreement.

26. **Counterparts.** This Interim Agreement may be executed (a) simultaneously in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument, and (b) by fax or electronic transmission.

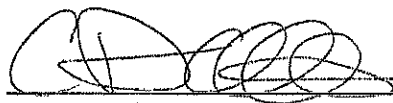
If you are in agreement with the above, please sign and return it to us at your earliest convenience, upon which this Interim Agreement will become binding in accordance with its terms as of the date first indicated above.

CIELO GOLD CORP.

Per: 

Authorized Signatory

BLUE HORIZON BIO-DIESEL INC.

Per: 

Authorized Signatory