EARTHWORKS INDUSTRIES INC.

Annual Report to Shareholders

May 25, 2016

Information about Earthworks Industries Inc. may be viewed on its website at www.earthworksinc.com

To: The Shareholders
Earthworks Industries Inc.

Printed below is the Company's Annual Management Discussion and Analysis dated March 23, 2016, for the fiscal year ended November 30, 2015 – and the MD & A for the Company's first fiscal quarter. They provide information with respect to the Company's situation at November 30, 2015, and updated information to April 26, 2016. There have been no material changes to the affairs of the Company since April 26, 2016.

Management's Discussion and Analysis – Annual – dated March 23, 2016

1. Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis ("MD & A") may be deemed forward-looking statements. All statements other than statements of historical facts and possible future financings are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking statements while considering the risks set forth below.

2. Description of Business

(a) Cortina Landfill Project

Since March 25, 2015, the date of the Company's last annual MD & A, no developments or progress have occurred with respect to the Cortina Landfill Project ("Project") proposed to be developed on leased California land through the Company's wholly owned California subsidiary Cortina Integrated Waste Management Inc. ("CIWM") (the Company and CIWM being hereinafter together called "EWK/CIWM"). The efforts of Management since that date have been focused on the raising of additional funding for the Company.

The action of the U.S. Bureau of Indian Affairs ("BIA") to cancel the Company's Cortina Lease, and the Company's Appeal of the BIA's action to the US Interior Board of Indian Appeals (the "IBIA"), were described in the Company's annual MD &A dated March 31, 2014. On October 29, 2015 the IBIA issued its decision allowing the Company's Appeal thereby reinstating the Cortina Lease.

(b) Agreement to settle Judgment against the Company

Previous MD & A's have described the Judgment awarded by a California court against EWK/CIWM in an action brought by North Bay Corporation and its subsidiary, Cortina Landfill Company (together "North Bay/CLC") arising out of earlier agreements between them.

In the annual MD & A dated March 31, 2014, a Compromise and Settlement Agreement, as amended, was described. Subsequently, a number of amendments and extensions were agreed to. Previously, the Company made payments to North Bay/CLC, reducing the balance due to $5,000,000. During the Subsequent Period a new payment schedule was agreed to so that the commitments by EWK/CIWM are now to pay to North Bay $5,000,000 as follows:

(a) $1,000,000 in cash by March 31, 2016;

(b) payment of the balance of $4,000,000 over 8 years by annual payments of $500,000 per year plus accrued interest starting March 31, 2017.

Any payment by EWK in excess of the required amount will be credited toward the Principal and deducted from the next payment falling due.

EWK will have an option to settle the $4,000,000 balance by paying $2,250,000 on or before November 30, 2016.

The Principal remaining unpaid from time to time will bear interest calculated from March 31, 2016, not in advance, at a rate of 7.0% per annum.

In this note all references to monies are to U.S. dollars.

(c) Financing

On November 23, 2015, the Company announced that it was undertaking private placement sales of 200,000 Units at $0.125 per Unit. Each Unit consists of one share of the Company and one-half of a 2-year share purchase warrant. Each warrant entitles the holder to purchase an additional share of the Company for $0.20. The warrants will expire December 1, 2017. The sale of the 200,000 Units closed December 2, 2015, providing the Company with proceeds of $25,000.

Effective October 1, 2015, the Company closed the sale of 1,500,000 Units – from which the Company received gross proceeds of $150,000. Each Unit consists of one share of the Company and one-half of a 2-year share purchase warrant. Each warrant entitles the holder to purchase an additional share of the Company for $0.20. The warrants will expire October 1, 2017.

On March 3, 2016 the Company announced that it was undertaking the sale of 1,750,000 Units at $0.15 per Unit to raise gross proceeds of $262,500. Each Unit will consist of one share of the Company and one-half of a share purchase warrant. A whole warrant will be exercisable to purchase one additional share of the Company for $0.25 for two years.

All warrants referred to above are subject to forced exercise requirements if the shares of the Company trade on the TSX Venture Exchange at or above $0.40 for 20 consecutive days.

3. Overall Performance

Because the Company does not carry on any revenue generating operations it would not be meaningful to analyze the Company's financial performance in the manner that would be possible for a company with a developed operating business or regular income.

4. Results of Operations

For the Quarter, the Company had an operating loss of $155,983 (2014 – $296,447). For the Fiscal Year the Company had an operating loss of $749,031 (2014 - $1,092,359) and a comprehensive loss of $284,963 (2014 – $853,387 loss). The differences between the operating losses and the comprehensive losses are as a result of deemed non-cash gains due to currency exchange differences between US and Canadian dollars. The differences in the figures for the last two quarterly periods are principally due to the posting in the Quarter of some year-end expenses which were not reflected in the third quarter figures.

5. Selected Annual Information

The following information is provided for each of the last three fiscal year ends of the Company:

	November 30, 2015 $	**November 30, 2014 $**	**November 30, 2013 $**
(a) Net sales or total revenues	Nil	Nil	Nil
(b) Net Income (Loss) - total - per share undiluted*	 (749,031) (0.02)	 (1,092,359) (0.03)	 (214,278) (0.01)
(c) Comprehensive Income (Loss) - total - per share undiluted*	 (125,733) (0.01)	 (853,387) (0.02)	 (50,695) (0.00)
(d) Total assets	11,027,258	9,405,225	8,652,492
(e) Total non-current financial liabilities	Nil	Nil	Nil
(f) Dividends	Nil	Nil	Nil

* As the effect of dilution is to reduce the reported loss per share, fully diluted loss per share information has not been shown.

6. Liquidity

At the close of business on November 30, 2015, the Company had cash on hand of $46,092 (2014 - $52,998) and a working capital deficiency of $8,279,483 (2014 - $7,642,263). The Company will continue to evaluate its funding requirements on an ongoing basis in an effort to meet its current and future development and growth initiatives. Management is presently seeking additional equity financing.

The Company is facing severe liquidity problems and risks. It does not have sufficient cash-on-hand to pay its ongoing general and administrative costs and pay the costs of ongoing work on the Project - or to pay the amount which is payable to North Bay/CLC pursuant to the Compromise Agreement referred to in Clause 2(b). To carry on the Company will have to raise additional financing and potentially renegotiate the payment terms to North Bay/CLC described in Clause 2(b).

Management believes that the needs of central California for waste disposal and treatment facilities and capacity is continuing to grow and that existing sites are going to become full and unavailable.

Management believes that this trend will help to bring political and economic pressure in support of the ongoing approval of, and ultimately the construction of, the Cortina Project.

7. Summary of Quarterly Results

The following information is provided for each of the 8 most recently completed quarters of the Company:

	November 30, 2015	August 31, 2015	May 31, 2015	February 28, 2015	November 30, 2014	August 31, 2014	May 31, 2014	February 28, 2014
(a) Net sales or total Revenues	$0	$0	$0	$0	$0	$0	$0	$0
(b) Income (Loss) - total - per share undiluted *	$(155,983) (0.00)	$(120,915) (0.00)	$(118,335) (0.00)	$(353,798) (0.01)	$(296,447) (0.01)	$(215,396) (0.01)	$(305,273) (0.01)	$(275,243) (0.01)
(c) Comprehensive Income (Loss) - total - per share undiluted *	$(50,955) (0.00)	$(107,163) (0.00)	$(104,583) (0.00)	$(22,262) (0.00)	$(113,030) (0.00)	$(222,624) (0.01)	$(239,429) (0.01)	$(278,304) (0.01)

* As the effect of dilution is to reduce the reported loss per share, fully diluted loss per share information has not been shown.

The differences in the figures between the various quarters is due mainly to the recognition of interest accruing on the Company's debt to NB/CLC, varying legal and regulatory maintenance requirements, executing securities transactions, negotiating financings, deemed currency exchange losses or gains, and the posting of some yearly expenses which were not accrued in the financial statements for the previous quarters. The significant operating expense items the Company posted during the Quarter are detailed in Clause 8.

In the Quarter the Company had an operating loss of $155,983 but a deemed favourable foreign currency exchange rate resulted in a deemed comprehensive loss of $50,955.

8. Transactions with Related Parties

During the Fiscal Year:

Salary totalling $137,491 (2014 - $135,805) was accrued in favour of the President of the Company –none of which was paid. During the Fiscal Year $108,721 of previously accrued unpaid salary was paid to the President. As at the Year-End a total of $168,134 was owed to the President for accrued but unpaid salary.

Directors' fees totalling $18,000 (2014 - $18,000) were accrued 50% to a Director of the Company and 50% to a corporation controlled by another Director – of which $4,500 was paid and $13,500 remains payable. During the Fiscal Year $32,250 of previously accrued unpaid Directors' fees were paid.

Legal fees totalling $21,835 (2014 - $42,129) were incurred with a law firm of which the Company's Secretary is a principal – none of which has been paid.

Accounting fees totalling $22,837 (2014 - $21,919) were incurred with a corporation controlled by an officer of the Company – of which $17,955 has been paid and $4,882 remains payable.

These transactions have been in the normal course of operations and have been valued at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. Other MD & A Requirements

(a) Additional information relating to the Company - principally the quarterly financial statements and the Management Discussion and Analysis (MD & A) prepared and issued by the Company for previous quarters, and the year-end audited Financial Statements with accompanying MD & A issued and filed by the Company for November 30, 2015, have been filed on SEDAR and are available at www.sedar.com.

(b) As the Company has not had any revenue from operations during the past two completed fiscal years, the following additional information is provided - being a breakdown of the Company's general and administrative expenses for the Fiscal Years ending November 30, 2015 and November 30, 2014:

	November 30, 2015 $	**November 30, 2014 $**
Bank charges and interest	35,935	74,070
Consulting	-	7,000
Convertible loan interest and accretion	76,542	169,843
Directors' fees	18,000	18,000
Interest on advances from Cortina Landfill Company	-	385,356
Management salaries	137,491	137,306
Office and administration costs	21,573	33,882
Professional fees	76,056	152,461
Promotion	6,474	7,048
Rent and parking	40,082	35,318
Salaries and benefits	48,598	55,433
Stock exchange and filing fees	21,232	14,547
Telephone and internet	6,086	2,257
Transfer agent fees	8,719	8,830
Travel	8,211	7,770
Totals	504,999	1,109,121

Outstanding share data at November 30, 2015, and as of the date of this MD & A:

(i) The Company had 50,864,532 common shares issued. The shares are all voting shares and rank equally with each other.

(ii) The Company has share purchase options and share purchase warrants outstanding, details of which are as follows:

Number	Exercise Prices- $	Expiry Dates
Options		
625,000	0.15*	April 19, 2016
675,000	0.15*	November 7, 2017
2,080,000	0.15	November 30, 2019
3,380,000		
Warrants		
3,430,000	0.20	April 14, 2016
1,615,000	0.20	June 17, 2016
1,340,000	0.20	November 17, 2016
925,000	0.20	September 17, 2016
675,000	0.20	April 13, 2017
2,752,500	0.20	May 31, 2017
750,000	0.20	October 1, 2017
100,000	0.20	December 1, 2017
11,587,500		

* The options shown expiring in 2016 and 2017 were previously exercisable at $0.40 or $0.25 per share. In December, 2014, the Company's Board reduced the exercise price to $0.15 per share.

10. Fourth Quarter

There were no events or items in the Company's fourth quarter which affected its financial condition, cash flow or results of operations except the receipt of cash financing in the amount of $25,000 and the revised USD $5,000,000 payment schedule detailed in Clause 2(b) above.

11. Risks and Uncertainties

(a) The ability of the Company to become a viable provider of waste management services is dependent upon many factors including the obtaining of required permits and the obtaining of required financing and the successful negotiation of contracts with waste stream providers.

(b) The Company has no history of profitable operations as its only project - the Cortina Project - is at the development stage. The Company is subject to many risks common to comparable companies including under-capitalization, limitations with respect to personnel, financial and other resources as well as lack of revenues, and potential environmental problems at the Cortina Project site.

(c) The Company is very dependent upon the personal efforts and commitments of its existing management. To the extent that the management's services would be unavailable for any reason, a disruption to the operations of the Company could result and other persons would be required to manage and operate the Company.

12. Accounting Policy Changes

Notes 2(p) and 2(q) of the consolidated annual financial statements for the Fiscal Year describe accounting policies which have been adopted by the Company and which the Company will have to adopt for subsequent fiscal years.

Management Discussion and Analysis – First Quarter – dated April 26, 2016

1. Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis ("MD & A") may be deemed forward-looking statements. All statements other than statements of historical facts and possible future financings are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking statements while considering the risks set forth below.

2. General Discussion of Business Operations

The Company's sole project is the development of a proposed integrated waste management facility in California under a lease agreement with the Cortina Band of Indians.

The Company has completed an Environmental Impact Study for the project through its wholly-owned subsidiary, Cortina Integrated Waste Management Inc. ("CIWM") and received final approval of the lease in January 2007 from the United States Department of the Interior - Bureau of Indian Affairs ("BIA"). The Band's regulatory agency issued an Authority to Construct in October 2008. On August 19, 2013, the Company received a Notice of Termination of the lease from the BIA, however the Company succeeded in its Appeal to the Interior Board of Indian Affairs (IBIA) and on October 29, 2015, the Lease was re-instated.

In the time since re-instatement of the Lease the Company has negotiated an additional extension of its debt with North Bay Corporation, met with the Cortina Band's Business Committee to discuss the development going forward and contacted SCS Engineers on remobilization plans.

Management will undertake to provide a current budget once the various permits and applications that were in progress are complete and the Company's engineers have provided their scope of work moving forward.

3. Financial Condition, Financial Performance and Cash Flows

The Company relies on periodic private placement funding to finance its on going operations. It has no operating revenue to date. It currently has a working capital deficit of $8,456,000, due primarily to amounts payable to management, directors and related parties in respect of unpaid fees and salaries and unsecured short term loans. While these are payable on demand, there has been no urgency on the part of the debt holders to make such demands. The details of these are disclosed in the notes to the Financial Statements.

The most significant factor in the Company's financial condition is the amount due to North Bay/CLC (US$5,000,000). As disclosed in the Financial Statements Note 5, an agreement was reached whereby the loan would be payable over 8 years commencing March 31, 2016. The first payment of US$1,000,000 is due by April 30, 2016. In future quarters the loan will be reclassified to its current and long term components once the initial payment is made.

The Company cannot guarantee it will be successful in continuing to negotiate acceptable terms on the debt with North Bay or raise funds to finance operations going forward however is confident it will now that the Lease has been re-instated.

In order to meet the cash requirements for the Company in the next quarter, a private placement sale in the amount of $107,250 was closed on April 25, 2016.

Since the majority of the Company's assets are located in the United States, currency fluctuations can change the value of the assets significantly. Financing is raised in Canadian dollars and consequently currency risk as to the amounts needed in Canadian funds is significant. With the recent rise in the value of the U.S. dollar and the related increase in the carrying value of the U.S. assets, the Company has benefitted. However its debt obligation to North Bay/CLC is also denominated in U.S. dollars and therefore a higher amount of funding in Canadian dollars to meet this obligation will be required as a result should the current exchange rates continue.

4. Major Operating Milestones

Since succeeding in its Appeal in 2015, management has reached agreement with its major creditor North Bay/CLC and determined a repayment schedule. This is disclosed in Note 7 of the Financial Statements. Management has also had meetings with the Cortina Indian Band to discuss working together going forward.

5. Commitments, Unexpected Events or Uncertainties

There have been no unexpected events in the Quarter. There remains significant uncertainty in the Company's ability to raise sufficient capital to meet the terms of the Agreement with North Bay/CLC and in particular the first US$1,000,000 required April 30, 2016.

6. Significant Changes from Previous Financing Use of Proceeds Disclosures

The funds raised have been used as previously disclosed.

7. Transactions with Related Parties

There were no significant transactions with related parties other than the usual ones relating to interest accrued and provision of services. These are disclosed in Note 9 of the Financial Statements. Certain related parties were placees in the most recent private placement.