

EARTHWORKS INDUSTRIES INC.
(the "Company")

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

EARTHWORKS INDUSTRIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

As at August 31, 2016 and 2015 and November 30, 2015

	Aug 31 2016	November 30 2015	Aug 31 2015
ASSETS			
Current Assets			
Cash	\$ 40,632	\$ 46,092	\$ 15,017
Goods and Services tax recoverable	975	1,661	1,277
Prepaid expenses	<u>4,941</u>	<u>2,150</u>	<u>5,881</u>
	46,548	49,903	22,175
Equipment	2,060	2,513	2,715
Cortina Landfill Project (notes 2 and 5)	10,644,860	10,814,379	10,878,889
Deposits	<u>1,233</u>	<u>1,233</u>	<u>1,233</u>
	<u>\$ 10,694,701</u>	<u>\$ 10,868,028</u>	<u>\$ 10,905,012</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities (note 9)	\$ 624,413	\$ 605,356	\$ 605,384
Notes payable (note 6)	714,890	691,175	683,354
Advances from Cortina Landfill Company (note 5)	716,009	6,666,500	6,611,500
Accrued interest on convertible loans (note 7)	270,009	244,550	236,344
Liability component of convertible loans (note 7)	<u>135,826</u>	<u>121,805</u>	<u>152,313</u>
	2,461,147	8,329,386	8,288,895
Long Term Liabilities			
Advances from Cortina Landfill Company (note 5)	5,708,940	-	-
SHAREHOLDERS' EQUITY			
Share capital (note 8)	17,477,005	16,990,005	16,813,365
Share subscription advance	-	12,500	-
Contributed surplus (note 8)	1,919,326	1,919,326	1,946,326
Equity portion of convertible loans (note 7)	270,220	270,220	231,326
Accumulated other comprehensive income (loss)	765,018	827,900	950,426
Deficit	<u>(17,906,955)</u>	<u>(17,481,309)</u>	<u>(17,325,326)</u>
	<u>2,524,614</u>	<u>2,538,642</u>	<u>2,616,117</u>
	<u>\$ 10,694,701</u>	<u>\$ 10,868,028</u>	<u>\$ 10,905,012</u>

Nature of Business, Continued Operations and Going Concern (note 1)

Approved on Behalf of the Board on October 25, 2016:

David Atkinson
Director

David Andrews
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EARTHWORKS INDUSTRIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

For the Nine and Three Months ended August 31, 2016 and 2015

	Nine month ended Aug 31, 2016	Nine months ended Aug 31, 2015	Three months ended Aug 31, 2016	Three months ended Aug 31, 2015
Administration Costs				
Amortization	\$ 453	\$ 608	\$ 151	\$ 204
Bank charges and interest (note 9)	45,298	28,152	29,093	8,137
Convertible loan interest and accretion (note 7)	39,480	49,864	10,623	16,330
Interest on advances from Cortina Landfill Corp	111,056	111,056	-	-
Directors' fees (note 9)	13,500	13,500	4,500	4,500
Management salaries (note 9)	100,827	101,281	33,643	33,760
Office and administrative costs	16,783	15,567	5,780	5,256
Professional fees (note 9)	41,998	38,490	19,305	12,404
Promotion	5,690	5,426	1,688	3,125
Rent and parking	19,946	29,985	(1,192)	10,097
Salaries and benefits	1,795	39,401	1,795	13,136
Share based compensation	-	233,309	-	-
Stock exchange and filing fees	14,875	16,620	3,355	4,853
Telephone and internet	4,962	4,632	2,011	1,818
Transfer agent	6,141	8,248	2,931	4,821
Travel	2,842	7,965	410	2,474
Loss for the period	425,646	704,104	114,093	120,915
Other Comprehensive Loss (Income)				
Exchange difference on translation of foreign operations	62,882	(586,594)	(5,464)	(13,752)
Comprehensive loss (gain) for the period	\$ 488,528	\$ 117,510	\$ 108,629	\$ 107,163
Basic and diluted loss per share	\$ 0.01	\$ 0.01	\$ -	\$ -
Weighted average number of common shares outstanding - basic and diluted	51,203,776	43,633,655	51,203,776	40,816,600

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EARTHWORKS INDUSTRIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2016 and 2015 and the Year Ended November 30, 2015

	Nine months ended	Year Ended	Nine months ended
	Aug 31, 2016	November 30, 2015	Aug 31, 2015
Operating Activities			
Net income (loss) for the year	\$ (425,646)	\$ (749,031)	\$ (593,048)
Adjust for non-cash items:			
Amortization	453	809	608
Interest on advances from Cortina Landfill Company	111,058	-	-
Interest	23,715	32,063	24,242
Convertible loan interest and accretion	39,480	76,542	49,864
Share based compensation	-	233,309	233,309
Loss (gain) on settlement of convertible loans	-	9,914	-
	<u>(250,940)</u>	<u>(396,394)</u>	<u>(285,025)</u>
Change in non-cash working capital accounts (note 13)	<u>20,336</u>	<u>24,428</u>	<u>3,570</u>
	<u>(230,604)</u>	<u>(371,966)</u>	<u>(281,455)</u>
Financing Activities			
Share capital issued for cash	487,000	355,000	685,500
Repayment of advances form Cortina Landfill Company	(249,356)		(364,000)
Share issue costs	-	(2,440)	(2,080)
Share subscription advance	(12,500)	12,500	-
Notes payable	-	-	(39,500)
	<u>225,144</u>	<u>365,060</u>	<u>279,920</u>
Effects of foreign exchange on cash balances	<u>-</u>	<u>-</u>	<u>(36,446)</u>
Increase (decrease) in cash	(5,460)	(6,906)	(37,981)
Cash, beginning of period	<u>46,092</u>	<u>52,998</u>	<u>52,998</u>
Cash, end of period	<u>\$ 40,632</u>	<u>\$ 46,092</u>	<u>\$ 15,017</u>
Interest paid (received)	\$ -	\$ -	\$ -
Income taxes paid (received)	\$ -	\$ -	\$ -

Supplemental Cash Flow Information (note 13)

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EARTHWORKS INDUSTRIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CORTINA LANDFILL PROJECT COSTS

(Expressed in Canadian Dollars)

For the Nine Months Ended August 31, 2016 and 2015 and the Year Ended November 30, 2015

	Nine months ended	Year Ended	Nine months ended
	Aug 31, 2016	November 30, 2015	Aug 31, 2015
<hr/>			
Cortina Landfill Project			
Exchange Adjustment	\$ (169,519)	\$ 1,470,829	\$ 1,535,339
Balance end of previous year	<u>10,814,379</u>	<u>9,343,550</u>	<u>9,343,550</u>
Balance. End of period	<u>\$ 10,644,860</u>	<u>\$ 10,814,379</u>	<u>\$ 10,878,889</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

EARTHWORKS INDUSTRIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the Years Ended November 30, 2014 and 2015 and the nine months ended August 31, 2015 and 2016

	Number of Shares	Amount	Share subscription advance	Contributed Surplus	Equity Portion of Convertible Loans	Accumulated Other Comprehensive Income (Loss) - cumulative translation adjustment	Deficit	Total
Balance, November 30, 2014	42,509,532	\$ 16,156,945	\$ -	\$ 1,686,017	\$ 231,326	\$ 363,832	\$ (16,732,278)	\$ 1,705,842
Units offering (net of compensation)	6,855,000	658,500	-	27,000	-	-	-	685,500
Share issue costs	-	(2,080)	-	-	-	-	-	(2,080)
Share subscription advance	-	-	-	-	-	-	-	-
Share based compensation	-	-	-	233,309	-	-	-	233,309
Other comprehensive income (loss)	-	-	-	-	-	586,594	-	586,594
Net loss for the period	-	-	-	-	-	-	(593,048)	(593,048)
Balance, Aug 31, 2015	49,364,532	\$ 16,813,365	\$ -	\$ 1,946,326	\$ 231,326	\$ 950,426	\$ (17,325,326)	\$ 2,616,117
Units offering (net of compensation)	1,500,000	177,000	-	(27,000)	-	-	-	150,000
Share issue costs	-	(360)	-	-	-	-	-	(360)
Share subscription advance	-	-	12,500	-	-	-	-	12,500
Equity portion of convertible loan	-	-	-	-	38,894	-	-	38,894
Other comprehensive income (loss)	-	-	-	-	-	(122,526)	-	(122,526)
Net loss for the period	-	-	-	-	-	-	(155,983)	(155,983)
Balance, November 30, 2015	50,864,532	\$ 16,990,005	\$ 12,500	\$ 1,919,326	\$ 270,220	\$ 827,900	\$ (17,481,309)	\$ 2,538,642
Units offering (net of compensation)	3,753,000	487,000	(12,500)	-	-	-	\$	474,500
Other comprehensive income (loss)	-	-	-	-	-	(62,882)	-	(62,882)
Net loss for the period	-	-	-	-	-	-	(425,646)	(425,646)
Balance, Aug 31, 2016	54,617,532	\$ 17,477,005	\$ -	\$ 1,919,326	\$ 270,220	\$ 765,018	\$ (17,906,955)	\$ 2,524,614

The accompanying notes are an integral part of these consolidated financial statements

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

1 Nature of Business, Continued Operations and Going Concern

Earthworks Industries Inc. (the "Company") is incorporated under the laws of British Columbia, Canada and management has determined that the Company is in the development stage based on the fact it has no operations, no significant revenues and has not completed the landfill project. Its office is located at Suite 1608 - 675 West Hastings Street, Vancouver B.C. V6B 1N2.

The Company has completed an environmental impact study of a landfill project through its wholly-owned subsidiary, Cortina Integrated Waste Management Inc. ("CIWM") and received a Record of Decision to approve its lease to construct and operate the site from the United States Department of the Interior - Bureau of Indian Affairs ("BIA") in 2000. Final approval of the lease was issued in January 2007. Notice of termination of this lease was given by the BIA on August 19, 2013. The Company filed and, on October 29, 2015, succeeded in its Appeal to the Interior Board of Indian Affairs (IBIA).

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The establishment of operations by the Company and the recoverability of the amount shown for the landfill project is dependent upon the ability of the Company to obtain necessary financing to complete the development of the landfill operation and commence future profitable operations. Management will pursue future equity financings and continued loans from related and other parties. These matters represent a material uncertainty that may raise significant doubt about the ability of the Company to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

In December 2015, the Company renegotiated repayment terms for the payment of the Advances from Cortina Landfill Company. Under the renegotiated repayment terms, payment of \$1,000,000 (U.S. dollars) in cash is due on March 31, 2016. The Company has pledged 100% of the shares of CIWM in escrow. If the payment is not paid in full by the due date, 100% of the shares of the issued shares of CIWM will automatically and without notice vest in North Bay Corporation, the sole owner of the Cortina Landfill Corporation. CIWM holds the lease to construct and operate an integrated waste management project located on the Cortina Indian Rancheria in Colusa County, California. See note 6 for full details of the Cortina Landfill Project and Advances from Cortina Landfill Corporation.

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 Cortina Landfill Project - or to pay the Advances from Cortina Landfill Company. To carry on the Company will have to raise additional financing.

2 Significant Accounting Policies

a) Basis of Presentation

These condensed consolidated interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These condensed consolidated interim financial statements have been prepared on the basis of IFRS that are effective for the Company's reporting year ended November 30, 2015. The Company is compliant with IAS 34.

These condensed consolidated interim financial statements have been prepared on a historical basis except for certain financial instruments which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b) Consolidation of Financial Statements

These condensed consolidated interim financial statements include the accounts of the Company and CIWM., a subsidiary incorporated in the State of California on July 19, 1994. A wholly-owned subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. References to "the Company" include Cortina Integrated Waste Management, Inc. Intercompany balances and transactions have been eliminated upon consolidation.

c) Financial Instruments

All financial instruments are classified into one of the following five categories: fair-value-through-profit-or-loss, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the statement of financial position and are measured at fair market value upon inception. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification.

Financial instruments classified as fair-value-through-profit-or-loss are measured at fair value and all gains and losses are included in profit or loss in the period in which they arise. Available-for-sale financial assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the statement of financial position or there is an other than temporary impairment. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately in profit or loss. Transaction costs in respect of financial instruments at fair-value-through-profit-or-loss are recognized in profit or loss immediately. Transaction costs in respect of other financial instruments are included in the initial measurement of the financial instrument.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

c) Financial Instruments (continued)

The Company assesses at each reporting date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the financial asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from accumulated other comprehensive income (loss) to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

IFRS 13 Fair Value Measurement requires a three-level hierarchy that reflects the significance of the inputs used in making the fair value adjustments. The three levels of fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

At August 31, 2016 and November 30, 2015, the Company had no financial instruments measured at fair value.

Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into shares of the Company at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. When the conversion option is exercised, the consideration received is recorded as share capital and the equity component of the compound financial instrument is transferred to share capital.

When the Company extinguishes convertible debentures before maturity through early redemption or repurchase where the conversion option is unchanged, the Company allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of settlement. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with the method used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued. The amount of gain or loss relating to the early redemption or repurchase of the liability component is recognized in profit or loss. The amount of consideration relating to the equity component is recognized in equity.

Derecognition of Financial Assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the final asset and substantially all the risks and rewards of ownership to another entity.

Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

d) Cortina Landfill Project Costs

The Company is proceeding with final federal approvals with respect to its investment in the Cortina Landfill Project and accordingly follows the practice of capitalizing all costs related to the project until such time as the project is put into commercial use, sold or abandoned. If commercial use commences, the capitalized costs will be amortized on a units of production basis. If the project is abandoned, the related capitalized costs will be written-off to profit or loss.

The amounts shown for the Cortina Landfill Project represent costs to date are not intended to reflect present or future values. The actual amounts to be recovered from the project are uncertain and not determinable until the project is completed. Changes in future conditions could require a material change in the recognized amount.

e) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided using the declining balance method at the following annual rates:

Computer equipment	30%
Office equipment	20%

In the year of acquisition, amortization is recorded at one-half the normal rate.

f) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period.

Existing stock options, share purchase warrants and convertible loans have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share are the same.

g) Foreign Currency Translation

The reporting currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiary is measured using the functional currency of the primary economic environment in which that entity operates. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the parent company's functional and presentation currency. The functional currency of the subsidiary is the United States dollar.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items valued at their fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income.

Where a non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

g) Foreign Currency Translation (continued)

Parent and Subsidiary Companies (Group)

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at the reporting date
- income and expenses are translated at average exchange rates for the period

Exchange differences arising on translation of foreign operations are transferred directly to exchange difference on translation of foreign operations in other comprehensive loss. These differences are recognized in profit or loss in the period in which the operation is disposed of.

h) Share-Based Compensation

The Company has a stock option plan that allows certain officers, directors, consultants, and related company employees to acquire shares of the Company. The fair value of the options is recognized as an expense with a corresponding increase in equity.

Share-based payments to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche awarded with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Share-based payments to non employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date or the date the goods or services are received.

Share-based payments are recorded as an operating expense and as contributed surplus. When options are exercised, the consideration received is recorded as share capital. In addition, the related share based payments originally recorded as contributed surplus are transferred to share capital.

i) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating losses or tax credits. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

j) Share Issue Costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

k) Valuation of Equity Units Issued In Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

l) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets requiring a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of that asset.

m) Significant Accounting Estimates and Judgments

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates:

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made relate to, but are not limited to, the following:

- the assessment of the Cortina Landfill Project assets included in the statements of financial position for indicators of impairment;
- the inputs used in accounting for share-based compensation;
- the recognition of deferred income tax assets; and
- the determination of a market rate of interest (i.e. costs of similar liability without conversion option) for calculation of the value ascribed to the liability portion of convertible debentures.

Critical Judgments:

Critical judgments include the analysis of the functional currency for each entity of the Company and the going concern assessment (see Note 1). In concluding that the Canadian dollar and the US dollar are the functional currencies of the parent and its subsidiary respectively, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates.

n) Long-lived assets

At the end of each reporting period the carrying value of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

o) Restoration, Rehabilitation, and Environmental Obligations

An obligation to incur restoration, rehabilitation or environmental costs arises when environmental disturbance is caused. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditures is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the landfill operates.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

o) Restoration, Rehabilitation, and Environmental Obligations (continued)

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate net present value. These costs are charged against profit or loss over the economic life of the related asset through amortization using either the unit of production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds, creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capital cost of the related assets, in which case the capitalized cost is reduced to \$nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation or environmental obligations as the disturbance to date is insignificant.

p) Standards, Amendments and Interpretations Adopted

The Company adopted the following standards effective December 1, 2014. The adoption of these standards did not have a material effect on the Company's financial position.

IFRS 3 Business Combination

This IFRS now requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. This amendment also clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

IFRS 2 Share-based Payment

The amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition.

IAS 24 Related Party Disclosures

The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation.

IFRS 8 Operating Segments

The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of segment assets is only required if segment assets are reported regularly.

IFRS 13 Fair Value Measurement

This amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. This amendment also clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

q) Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretive Committee that are mandatory for accounting periods beginning after January 1, 2015 or later periods.

The following new standards, amendments and interpretations, which have not been early adopted in these condensed consolidated interim financial statements, are not expected to have an effect on the Company's future results and financial position:

IFRS 5 Non current Assets Held for Sale and Discontinued Operations

The amendment clarifies circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and in circumstances which an entity no longer meets the criteria for held for distribution.

This standard is effective for reporting periods beginning on or after January 1, 2016.

IFRS 7 Financial Instruments

The amendment clarifies the applicability of the amendments to IFRS 7 Disclosure—Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements.

This amendment is effective for reporting periods beginning on or after January 1, 2016.

IAS 19 Employee Benefits

The amendment clarifies the application of the requirements of IAS 19 Employee Benefits (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency.

This standard is effective for reporting periods beginning on or after January 1, 2016.

IAS 34 Interim Financial Reporting

The amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' and requires a cross reference.

This amendment is effective for reporting periods beginning on or after January 1, 2016.

Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)

These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

These amendments are effective for reporting periods beginning on or after January 1, 2017.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

2 Significant Accounting Policies (continued)

q) Standards, Amendments and Interpretations Not Yet Effective (continued)

IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service.

This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

IFRS 11 Joint Arrangements

These amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to: (a) apply all of the business combinations accounting principles in IFRS 3 and other IFRS standards, except for those principles that conflict with the guidance in IFRS 11; and (b) disclose the information required by IFRS 3 and other IFRS standards for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

These amendments are effective for reporting periods beginning on or after January 1, 2016.

IAS 27 Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

This amendment is effective for reporting periods beginning on or after January 1, 2016.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 (Expressed in Canadian Dollars)
 August 31, 2016, August 31, 2015 and November 30, 2015

3 Financial Instruments and Financial Risk Management

a) Financial Instruments

The Company has classified its financial instruments as follows:

	Aug 31, 2016	November 30, 2015
Financial assets:		
Loans and receivables, measured at amortized cost:		
Cash	\$ 41,607	\$ 46,092
Other financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	636,763	605,356
Notes payable	924,890	691,175
Liability component and accrued interest on convertible loan	405,835	366,355
Advances from Cortina Landfill Company	6,424,949	6,666,500

The Company had no fair-value-through-profit-or-loss, available-for-sale, nor held-to-maturity financial instruments as at August 31, 2016 and November 30, 2015.

b) Financial Risk Management

(i) Overview:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(ii) Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At November 30, 2015, substantially all of the Company's cash was held at a recognized Canadian National financial institution. As a result, the Company was exposed to all of the risks associated with that institution. The Company has no accounts receivable at the current year end and as the Goods and Services tax recoverable is recoverable from the federal Government of Canada, the Company does not currently face significant credit risk.

(iii) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company regularly reviews its current obligations, and to the extent that the Company may not have sufficient liquidity to meet these obligations, management considers securing additional funds through equity or debt transactions.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

3 Financial Instruments and Financial Risk Management (continued)

b) Financial Risk Management (continued)

(iii) Liquidity Risk (continued):

At August 31, 2016, the Company had current assets of \$170,858 (2015 - 428,283) and current liabilities of \$8,410,146 (2015 - \$8,290,587). Management recognizes its liquidity risk and will pursue future equity financings and continued loans from related and other parties.

(iv) Market Risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments.

The Company is developing its Landfill Project in California, and as a result is subject to currency risk. Project costs are denominated in U.S. dollars and the loan advanced by Cortina Landfill Company ("CLC") to finance much of the ongoing cost is also in U.S. dollars. To this point in time the Company does not hedge the risk related to the fluctuations in the exchange rate between the U.S. and Canadian dollar as it relates to the Company's loan obligation. Management may decide to consider hedging the risk in the future.

	August 31, 2016	November 30, 2015
Cash - U.S. dollars	\$ -	\$ -
Accounts payable and accrued liabilities - U.S dollars	(197,747)	(202,022)
Advances from Cortina Landfill Company - U.S. dollars	(4,895,747)	(5,000,000)

U.S. Dollars are translated at Cdn \$1.3124 at August 31, 2016 (November 2015 - Cdn \$1.333).

At August 31, 2016, if the U.S. dollar had strengthened 10 percent against the Canadian dollar with all other variables held constant, the comprehensive loss for the year would have been \$408,000 higher (November 2015 - \$385,000). Conversely, if the U.S. dollar had weakened 10 percent against the Canadian dollar with all other variables held constant, the comprehensive loss would have been \$408,000 lower (November 2015 - \$385,000).

The Company is subject to interest rate risk on its notes payable as the interest is tied to Royal Bank of Canada's prime rate ("Prime"). However, lending rates are currently low and management considers the loans to be short term and the interest rate risk is not considered material.

(v) Fair Value of Financial Instruments:

The carrying values of cash, accounts payable and accrued liabilities, advances from Cortina Landfill Company, notes payable and the liability component and accrued interest on convertible loans approximate their fair values due to the relatively short periods to maturity and terms of these financial instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

4 Capital Structure and Management

The Company manages its capital to maintain its ability to continue as a going concern, to meet its financial obligations and to provide benefits to its shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity comprised of issued capital, share subscription advance, equity portion of convertible loans, contributed surplus, accumulated other comprehensive income (loss) and deficit.

The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company, with the approval of the Board of Directors, will continue to augment its capital through new share or debt issuances or by other activities as deemed appropriate.

There were no changes to the Company's approach to capital management during the years ended November 30, 2015 and 2014. The Company is not subject to externally imposed capital requirements.

5 Cortina Landfill Project

The Company has negotiated a Business Lease and completed an Environmental Impact Statement for an integrated waste management project located on the Cortina Indian Rancheria in Colusa County, California. The BIA issued final approval of the Lease in January 2007, and the Wintun Environmental Protection Agency, Board of Commissioners, issued the Authority to Construct in October 2008.

The Company leased a portion of the land located within the Cortina Indian Rancheria in Colusa County, California, for the purpose of developing and operating a sanitary landfill and materials recovery facility for an initial term of twenty-five years (with a renewal term of an additional twenty-five years), which commenced on the date the lease was approved for consideration of:

- (i) \$10,000 U.S. payable within 21 days of the lease being approved by the BIA;
- (ii) \$15,000 U.S. per month commencing the first month following the month in which commercial production commences, with monthly payments being indexed on an annual basis according to increases in the Cost of Living Index as published by the United States Government; and
- (iii) Fees equal to 3% of gross revenue on the first 150,000 tonnes of waste received in a fiscal year, to be calculated and paid monthly, and 5% of gross revenue for waste in excess of 150,000 tonnes received in a fiscal year.

On August 19, 2013, the Company received a Notice of Termination of its lease on the Cortina Indian Reserve Lands. On September 16, 2013, an appeal was filed with the Interior Board of Indian Appeals (IBIA) challenging the validity and sufficiency of the reasons for the termination by the Bureau of Indian Affairs. The Company filed its required opening brief of the appeal on February 3, 2014. On October 29, 2015, the IBIA, U.S. Department of the Interior, issued its Order reversing the decision of the Regional Director thereby reinstating the Lease.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

5 Cortina Landfill Project (continued)

The Company also agreed to pay all of the Cortina Tribe's reasonable attorney fees and costs incurred by Tribal officials and attorneys in carrying out their obligations under this Agreement.

On October 26, 2008, the Wintun Environmental Protection Agency issued the Authority to Construct for the Class III Municipal Solid Waste Landfill portion of the project.

In April 2007, an agreement was signed to sell 50% of the issued shares of Cortina Integrated Waste Management (CIWM), the Company's wholly-owned subsidiary and the owner and developer of the project, to the Cortina Landfill Company (CLC), a 100% owned subsidiary of North Bay Corporation ("North Bay") of Santa Rosa, California. On December 23, 2009, North Bay and CLC notified Earthworks that they would not be exercising their option to acquire 50% of the issued shares of CIWM nor continue funding the development of its waste management facility in Colusa County, California. Subsequently, a number of amendments and extensions were agreed to (in U.S. dollars):

In August, 2014 the Company renegotiated the repayment terms for the final US\$5,600,000 payment to NB/CLC as follows:

- (a) The extension is conditional upon Earthworks paying \$100,000 (paid) to North Bay by July 11, 2014. (subsequently extended to August 8, 2014) If that payment is made then the remaining \$5,600,000 will be payable:
- (b) US\$100,000 on or before August 5, 2014 (subsequently extended to August 26, 2014) (Paid)
- (c) US\$200,000 on or before September 30, 2014; (subsequently extended to October 31, 2014) (Paid)
- (d) The balance within 120 days after the date that a final decision is issued by the U.S. Interior Board of Indian Appeals in the Appeal that has been filed; or, if the dispute which is the subject of the Appeal is resolved by agreement rather than by a decision of the IBIA and the Lease is agreed to be in good standing, within 120 days after the Company receives a signed copy of the agreement. (See renegotiated payment terms below)

In December 2015, the Company renegotiated repayment terms for the payment of the final US\$5,000,000 payment to NB/CLC as follows:

- a) payment of US\$1,000,000 in cash by March 31, 2016;
- b) payment of the remaining US\$4,000,000 balance by annual payments of US\$500,000 over 8 years. In addition, interest will accrue at the rate of 7% per annum, compounded annually, commencing March 31, 2016.

The Company has the option to settle the US\$4,000,000 remaining balance owing for US\$2,250,000 until November 30, 2016.

In June, 2016, the Company renegotiated the terms for repayment of the final US\$5,000,000 to NB/CLC as follows:

- (a) payment of US\$150,000 in June, 2016 (paid)
- (b) annual payments of US\$500,000 plus accrued interest @ 7% per annum over 8 years commencing March 31, 2017.
- (c) a final payment of the remaining balance and accrued interest

In July, 2016 the Company made a payment to NB/CLC of US\$40,000 toward its next required payment.

The Company has retained the option to settle the US\$4,850,000 balance by paying US\$2,250,000 on or before November 30, 2016.

The Company has pledged 100% of the shares of CIWM in escrow. If the payments are not paid in full on or before their due dates, NB/CLC can seek its only remedy and exercise their rights under the pledge to seize ownership of 100% of the issued shares of CIWM.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

6 Notes Payable (see notes 9g and 9h)

	August 31, 2016	November 30, 2015
Notes payable, unsecured, at cost plus accrued interest at Royal Bank prime plus 3% per annum. The loans are convertible at the holders option into common shares of the Company at the discounted market price of the shares on the date the notice of conversion is given.	\$ 33,158	\$ 32,084
Notes payable, unsecured bearing interest at Prime + 2% per annum and matures 90 days from the agreement date (February 27, 2013 - November 1, 2013). Additionally, a 10% financing fee is satisfied on Maturity Date or closing on any private placement prior to Maturity Date. The lender may, if the Company announces a private placement of its common shares prior to Maturity Date, elect to have all or a portion of the principal and fee applied to the purchase of shares in the private placement at the same net (after commissions being paid) price being charged by the Company to other investors.	148,551	144,355
Notes payable, unsecured bearing interest at Prime + 3% per annum and matures 90 days from the agreement date (March 4, 2013 - November 13, 2014). Additionally, a 10% financing fee is satisfied on Maturity Date or closing on any private placement prior to Maturity Date. The lender may, if the Company announces a private placement of its common shares prior to Maturity Date, elect to have all or a portion of the principal and fee applied to the purchase of shares in the private placement at the same net (after commissions being paid) price being charged by the Company to other investors.	533,181	514,736
	\$ 714,890	\$ 691,175

7 Convertible Loans (see note 10f)

In June 2011, the Company issued two convertible loans in the amounts of \$700,000 and \$25,000. The lenders could, in whole or in part and from time to time, until May 31, 2014 (the "Maturity Date") convert all or portions of the loaned funds to the acquisition of Units – one Unit to be issued for each \$0.30 of loan converted. Each Unit consisted of one share of the Company and one-half of a share purchase warrant. Each whole warrant will entitle the holder to purchase an additional share of the Company for a price of \$0.43 per share until the Maturity Date. The Convertible Loans are divided between a liability component and an equity component. The liability component represents the present value of the term debt discounted using the discount rate that would have been applicable to non-convertible debt. The equity component was determined as the residual of the face value of the debt less the liability component. This balance is accreted over the period of the loans using the effective-interest-rate method at a weighted average effective interest rate of 33.94% and is included in convertible loan interest and accretion expense.

The loans will bear interest until they are converted or repaid at 8.5% per annum, compounded monthly. Any principal or interest which has not been prepaid or converted will be payable on the Maturity Date.

The lenders made the loans to the Company on an unsecured basis. They have been issued 362,500 shares in the capital of the Company as bonuses. These shares are valued at \$0.35 per share (\$126,875) and have been allocated to the debt and equity portions of the convertible loans. The amounts are being amortized over the term of the loan.

In March 2014, the Company paid \$431,000 to retire a \$25,000 convertible loan and accrued interest as well as \$400,000 of principal of another convertible loan. The Debtholder has agreed to extend the term of the remaining convertible loan (\$300,000) until May 31, 2015. Upon extension, the remaining convertible loan was divided between a liability component and an equity component. The liability component represents the present value of the term debt discounted using the discount rate that would have been applicable to non-convertible debt. The equity component was determined as the residual of the face value of the debt less the liability component. The balance is accreted over the period of the remaining convertible loan using the effective-interest-rate method at an effective interest rate of 46.00%. Both debtholders have reinvested in the private placement completed in April 2014.

In November 2014, the Company paid \$100,000 to retire \$100,000 in principal of the remaining convertible loan. The Debtholder reinvested in the private placement share offering on November 27, 2014. The remaining obligation includes the remaining principal balance of \$200,000 and unpaid accrued interest of \$210,231.

In June and October, 2015, the Company paid \$59,500 to retire \$59,500 in principal of the remaining convertible loan. The Debtholder reinvested in the private placement share offering on June 3, 2015 (\$39,500) and October 1, 2015 (\$20,000). The remaining obligation includes the remaining principal balance of \$140,500 and unpaid accrued interest of \$244,550.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

7 Convertible Loans (see note 10f) (continued)

During the year ended November 30, 2015, the Debtholder agreed to extend the term of the remaining convertible loan until November 30, 2016. Upon extension, the remaining convertible loan was divided between a liability component and an equity component. The liability component represents the present value of the term debt discounted using the discount rate that would have been applicable to non-convertible debt. The equity component was determined as the residual of the face value of the debt less the liability component. The balance is accreted over the period of the remaining convertible loan using the effective-interest-rate method.

	Debt Portion	Equity Portion	Total
Balance, November 30, 2014	\$ 168,062	\$ 231,326	\$ 399,388
Accretion	42,223	-	42,223
Equity portion of remaining convertible loan	(39,918)	39,918	-
Repayments	(58,476)	(1,024)	(59,500)
Loss on settlement of convertible loans	9,914	-	9,914
Balance November 30, 2015	<u>121,805</u>	<u>270,220</u>	<u>392,025</u>
	-	#	\$
Repayments	-	-	-
Accretion	14,021	-	14,021
Loss on settlement of convertible loans	-	-	-
Balance August 31, 2016	<u>\$ 135,826</u>	<u>\$ 270,220</u>	<u>\$ 406,046</u>

	Nine months ended August 31, 2016	Year ended November 30, 2015
Accrued interest	\$ 25,459	\$ 34,319
Accretion in the year	14,021	42,223
Expense for the year	<u>\$ 39,480</u>	<u>\$ 76,542</u>

8 Share Capital

The authorized share capital of the Company consists of unlimited number of common shares without par value.

Transactions for the Issue of Share Capital During the nine months ended August 31, 2016:

Transaction	Date of Issue	Shares issued	Amount	Warrants issued
Units offering @ \$.125	03-Dec-15	200,000	25,000	100,000
Units offering @ \$.15	25-Apr-16	715,000	107,250	357,500
Units offering @ \$.125	23-Aug-16	2,838,000	354,750	1,419,000
		<u>3,753,000</u>	<u>\$ 487,000</u>	<u>1,876,500</u>

Transactions for the Issue of Share Capital During the year ended November 30, 2015:

Transaction	Date of Issue	Shares issued	Amount	Warrants issued
Units offering @ \$.10	13-Apr-15	1,350,000	\$ 135,000	675,000
Units offering @ \$.10	03-Jun-15	5,505,000	550,500	2,752,500
Units offering @ \$.10	01-Oct-15	1,500,000	150,000	750,000
		<u>8,355,000</u>	<u>\$ 835,500</u>	<u>4,177,500</u>

Warrants are subject to a 4 month hold period from the date of issue.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

8 Share Capital (continued)

Stock Options

The Company has adopted an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of common shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under TSX Venture Exchange policies), or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. Options granted under the Plan vest immediately, except for options granted to consultants conducting investor relations activities, which become vested with the right to exercise one-fourth of the options upon the conclusion of each three month period subsequent to the grant date.

A summary of the status of the Company's stock option plan as at August 31, 2016, and November 30, 2015, and changes during the periods then ended is as follows:

	August 31, 2016		November 30, 2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options Outstanding, beginning of year	3,380,000	\$ 0.15	1,525,000	\$ 0.17
Expired / Cancelled	(625,000)	-	(225,000)	0.32
Granted	-	-	2,080,000	0.15
Options Outstanding, end of period	2,755,000	\$ 0.15	3,380,000	\$ 0.15

The Company has outstanding stock options to acquire 2,755,000 shares of the Company's capital stock as follows:

Number of Options	Exercise Price (\$)	Expiry Date
675,000	0.15	Nov 7, 2017
2,080,000	0.15	Nov 30, 2019
2,755,000	0.15	

During the year ended November 30, 2015, the Company granted 2,080,000 stock options.

During the year ended November 30, 2015, the Company re-priced 1,375,000 stock options to a new exercise price of \$0.15 per common share:

- 75,000 options expiring February 28, 2015 (original exercise price \$0.40)
- 625,000 options expiring April 19, 2016 (original exercise price \$0.40)
- 675,000 options expiring November 7, 2017 (original exercise price \$0.25)

The fair value of the option granted and re-priced were estimated at the grant/re-pricing date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2015
Share price	\$ 0.12
Exercise price	\$ 0.15
Estimated annual volatility	168.29%
Risk-free interest rate	1.00%
Expected life (years)	5
Expected dividend yield	\$ -

Annualized volatility is estimated using the historical stock price of the Company.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

8 Share Capital (continued)

Stock Options (continued)

The following table summarizes information about the stock options outstanding and exercisable at August 31, 2016:

Range of Prices (\$)	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)	
\$0.15	675,000	1.94	0.15	
\$0.15	2,080,000	4.00	0.15	x
	<u>2,755,000</u>	<u>2.92</u>	<u>0.15</u>	

Escrow Shares

The Company has no outstanding escrow shares.

Warrants

	August 31, 2016	November 30, 2015	
Balance, beginning of year	11,487,500	7,310,000	
Issued	1,876,500	4,177,500	
Expired	-	-	
Balance, end of period	<u>13,364,000</u>	<u>11,487,500</u>	x
Weighted Avg. Exercise Price	\$ <u>0.20</u>	\$ <u>0.20</u>	

At August 31, 2016, the Company had warrants outstanding as follows:

Number of Warrants	Exercise Price	Expiry Date	
3,430,000	0.20	May 31, 2017	(a)
1,615,000	0.20	Feb. 17, 2017	(b)
925,000	0.20	May 16, 2017	(c)
1,340,000	0.20	Nov. 17, 2016	
675,000	0.20	April 13, 2017	
2,752,500	0.20	May 31, 2017	
750,000	0.20	Oct 1, 2017	
100,000	0.20	Dec. 2, 2017	
357,500	0.25	April 25, 2018	
1,419,000	0.20	August 15, 2018	
<u>13,364,000</u>			

During the year ended November 30, 2015, the Company amended the expiry date of 1,615,000 warrants from December 17, 2015, to June 17, 2016.

- (a) On October 6, 2016, the Company received regulatory approval of the amendment of the expiry date of 3,430,000 warrants from October 14, 2016 to May 31, 2017.
- (b) On June 16, 2016, the Company received regulatory approval of the amendment of the expiry date of 1,615,000 warrants from June 17, 2016 to February 17, 2017.
- (c) In September, 2016 the Company received regulatory approval for the amendment of the expiry date of 925,000 warrants from September 17, 2016 to May 16, 2017

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

9 Related Party Transactions

- a) Management salaries totaling \$100,827 (2015 - \$101,281) were incurred with David Atkinson, the President of the Company.
- b) Directors' fees totaling \$6,750 (2015 - \$6,750) were incurred with a corporation controlled by a Director of the Company.
- c) Directors' fees totaling \$6,750 (2015 - \$6,750) were incurred with a Director of the Company.
- d) Legal fees totaling \$18,325 (2015 - \$18,961) were incurred with a law firm within which a personal law corporation controlled by the Secretary of the Company is a principal.
- e) Accounting fees totaling \$17,022 (2015 - \$17,100) were incurred with (2015 - corporation controlled by) an officer of the Company.
- f) Convertible loans totaling \$140,500 (2015 - \$160,500) are outstanding having been issued to a director of the Company and a limited liability partnership in which a director of the Company is a participant. During the current year interest totaling \$25,459 (2015 - \$26,113) was accrued on this debt. See Note 7.
- g) Notes payable issued for advances by the Secretary of the Company amount to 33,158 (2015 - \$31,729). During the current year, interest totaling \$1,074 (2015 - \$1,095) was accrued on this debt.
- h) Notes payable issued for advances by a Director of the Company amount to \$339,208 (2015 - \$323,547). During the current year, interest totaling \$11,787 (2015 - \$12,003).

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

Transactions with key management personnel

	August 31, 2016	August 31, 2015
Directors' fees	\$ 13,500	\$ 13,500
Accounting fees	17,022	17,100
Management fees and salaries	100,827	101,281
	<u>\$ 131,349</u>	<u>\$ 131,881</u>

The amounts due to related parties included in accounts payable and accrued liabilities was payable to directors and officers. These balances are due on demand, have no specific terms of repayment, are non-interest bearing and unsecured unless otherwise stated; accordingly, fair value cannot be reliably determined.

	August 31, 2016	August 31, 2015
Due to the CEO and Director	\$ 217,366	\$ 180,615
Due to Directors	27,000	9,000
Due to an Officer	9,200	-
Due to a Company controlled by an officer	-	9,083
	<u>\$ 253,566</u>	<u>\$ 198,698</u>

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

10 Income Taxes

Income tax recovery varies from the amount that would be computed from applying the combined federal and provincial tax rate to loss before taxes as follows:

Year ended	November 30, 2015	November 30, 2014
Net income (loss) for the year before tax	\$ (749,031)	\$ (1,092,359)
Statutory Canadian corporate tax rate	26.00%	26.00%
Anticipated tax expenses (recovery)	(194,748)	(284,013)
Non-capital loss expired	97,628	119,251
Non-deductible (taxable) items for tax purposes	62,537	170,529
Difference in tax rates in other jurisdictions	(943)	(78,882)
Unrecognized (recognized) tax benefits	35,526	73,115
Current and deferred income tax	\$ -	\$ -

The significant components of the Company's deferred tax assets are as follows:

	November 30, 2015	November 30, 2014
Research and development	\$ 175,000	\$ 155,000
Equipment	15,000	15,000
Non-capital loss carry forwards	1,447,000	1,415,000
Share issue costs	5,000	7,000
Convertible loan	(5,000)	(8,000)
Unrecognized tax assets	(1,637,000)	(1,584,000)
Net deferred tax assets	\$ -	\$ -

The Company has approximately the following available non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses of approximately \$5,398,000 expire as follows:

2026	\$ 380,000
2027	522,000
2028	562,000
2029	479,000
2030	592,000
2031	774,000
2032	728,000
2033	293,000
2034	608,000
2035	460,000
<u>\$</u>	<u>5,398,000</u>

At November 30, 2015, the Company has unclaimed landfill costs for Canadian income tax purposes in the amount of \$235,621 (2014 - \$235,621) which may be deducted against future taxable income on a discretionary basis.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

10 Income Taxes (continued)

The Company has available tax loss carry forwards of approximately US\$23,000 (2014 - US\$23,000) which may be carried forward to reduce taxable income in the United States in future years. If not utilized, the available loss carry forwards expire between 2016 and 2034:

At November 30, 2015, the Company has unclaimed landfill costs for US income tax purposes in the amount of approximately US\$8,305,000 (2014 - US\$8,305,000) which may be deducted against future taxable income on a discretionary basis.

11 Segmented Information

The Company's activities are all in one industry segment of waste disposal.

Property and equipment by geographical segments is as follows:

	Canada	United States	Total
August 31, 2016			
Equipment	\$ 2,060	\$ -	\$ 2,060
Cortina Landfill Project	-	10,644,860	10,644,860
	<u>\$ 2,060</u>	<u>\$ 10,644,860</u>	<u>\$ 10,646,920</u>
November 30, 2015			
Equipment	\$ 2,513	\$ -	\$ 2,513
Cortina Landfill Project	-	10,973,609	10,973,609
	<u>\$ 2,513</u>	<u>\$ 10,973,609</u>	<u>\$ 10,976,122</u>

12 Bonus Commitment

In the case of:

- (i) the sale of 50.1% or more of CIWM; or
- (ii) the sale of 50.1% or more of CIWM's Cortina Landfill Project; or
- (iii) the sale of 50.1% or more of the Company's assets; or
- (iv) the acquisition by new principals, or a group more than 50% of the principals of which are not directly principals of the Company, of 33.34% or more of the issued shares of the Company; or
- (v) a de facto change of control of the Company and its management to a group the majority of which are not principals of the Company and which does not include the current President of the Company.

A cash bonus of \$1 million shall become payable on or before the 60th day following any of the change of control events described above, as follows:

- (i) 60% to a corporation controlled by the President of the Company;
- (ii) 20% to be divided evenly between and paid to the other then sitting Directors of the Company; and
- (iii) the remaining 20% will be divided and allocated between the then sitting Directors and others who have contributed to the success of the Company, excluding the current President, as determined by the Board of Directors.

In addition, the bonus shall become payable within 180 days of commercial production if the project is completed and put into commercial production by and under the control of the Company.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
August 31, 2016, August 31, 2015 and November 30, 2015

13 Supplemental Cash Flow Information

Changes in non-cash working capital for the nine months ended August 31, 2016 and 2015 were comprised of the following:

	9 months ended Aug 31, 2016	9 months ended Aug 31, 2015
Good and Services sales tax recoverable	\$ 686	\$ (928)
Prepaid expenses	(2,791)	3,964
Accounts payable and accrued liabilities	22,441	(6,606)
Net Change	\$ 20,336	\$ (3,570)

The Company incurred non-cash financing and investing activities during the nine months ended August 31, 2016 and the year ended November 30, 2015.

	2016	2015
Non-cash financing and investing activities:		
Issue of share capital for:		
Shares issued as pursuant to a bonus on short term loans	21,000	-
Shares issued pursuant to a conversion of management fees owed	12,500	-
Share based compensation	-	233,309
Payment of advances from Cortina Landfill Company	-	364,000

14 Subsequent events

- a) In September, 2016 the Company received regulatory approval for the amendment of the expiry date of 925,000 warrants from September 17, 2016 to May 16, 2017
- b) On October 6, 2016, the Company received regulatory approval of the amendment of the expiry date of 3,430,000 warrants from October 14, 2016 to May 31, 2017.