

**EARTHWORKS INDUSTRIES INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2019**

(Expressed in Canadian Dollars)

## Independent Auditor's Report

To the Shareholders of Earthworks Industries Inc.

### Opinion

We have audited the consolidated financial statements of Earthworks Industries Inc. ("the Group"), which comprise the consolidated statements of financial position as at November 30, 2019 and November 30, 2018 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at November 30, 2019 and November 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Pejman Mahlooji.

**"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, Canada  
March 26, 2020**

**EARTHWORKS INDUSTRIES INC.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

as at November 30, 2019 and 2018

	November 30 2019	November 30 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 7,524	\$ 90,779
Goods and Services tax recoverable	490	835
Prepaid expenses	15,389	14,462
	<u>23,403</u>	<u>106,076</u>
<b>Equipment</b> (note 5)	2,254	3,220
<b>Cortina Landfill Project</b> (note 6)	10,997,776	10,873,959
<b>Deposits</b>	-	1,233
	<u>\$ 11,023,433</u>	<u>\$ 10,984,488</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 10)	\$ 490,439	\$ 540,428
Notes payable (note 7)	694,781	663,826
Advances from Cortina Landfill Company (note 6)	-	266,020
Accrued interest on convertible loans (note 8)	337,510	329,521
	<u>1,522,730</u>	<u>1,799,795</u>
<b>Long Term Liabilities</b>		
Advances from Cortina Landfill Company (note 6)	7,298,145	6,636,888
	<u>8,820,875</u>	<u>8,436,683</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	20,197,640	19,781,390
Private placement advances	15,000	-
Reserves (note 9)	3,072,637	2,905,038
Accumulated other comprehensive income	792,053	799,724
Deficit	<u>( 21,874,772)</u>	<u>( 20,938,347)</u>
	<u>2,202,558</u>	<u>2,547,805</u>
	<u>\$ 11,023,433</u>	<u>\$ 10,984,488</u>

**Nature of Business, Continued Operations and Going Concern (note 1)****Subsequent Events (note 15)**

Approved on Behalf of the Board on March 26, 2020:

David Atkinson  
Director

Calvin Woroniak  
Director

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

**EARTHWORKS INDUSTRIES INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

For the Years Ended November 30, 2019 and 2018

	2019	2018
<b>Administration Costs</b>		
Amortization	\$ 966	\$ 2,281
Bank charges and interest (note 10)	31,721	30,065
Consulting fees	1,500	30,000
Convertible loan interest and accretion (note 8)	27,989	26,761
Directors' fees (note 10)	29,250	18,000
Interest on advances from Cortina Landfill Company	426,162	427,799
Management salaries (note 10)	133,355	131,771
Office and administrative costs	27,015	26,284
Professional fees (note 10)	133,650	182,131
Promotion	3,952	4,471
Rent and parking	27,951	22,111
Salaries and benefits	35,100	46,079
Share based compensation	167,599	154,825
Stock exchange and filing fees	8,210	12,552
Telephone and internet	5,845	5,550
Transfer agent	12,894	8,006
Travel	3,278	21,511
Gain on settlement of debt (Note 14)	<u>(140,012)</u>	<u>-</u>
<b>Loss for the year</b>	936,425	1,150,197
<b>Other Comprehensive (Income) Loss</b>		
Exchange difference on translation of foreign operations	7,671	( 111,168)
<b>Comprehensive loss for the year</b>	<u>\$ 944,096</u>	<u>\$ 1,039,029</u>
<b>Basic and diluted loss per share</b>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>71,414,291</u>	<u>66,447,355</u>

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

**EARTHWORKS INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
For the Years Ended November 30, 2019 and 2018

	2019	2018
<b>Operating Activities</b>		
Net loss for the year	\$ (936,425)	\$ (1,150,197)
Adjust for non-cash items:		
Amortization	966	2,281
Interest on advances from Cortina Landfill Company	426,162	427,799
Interest	30,955	29,196
Convertible loan interest and accretion	27,989	26,761
Share based compensation	167,599	154,825
(Gain) loss on settlement of debt (Note 14)	<u>(140,012)</u>	<u>-</u>
	(422,766)	(509,335)
Change in non-cash working capital accounts (note 14)	<u>86,888</u>	<u>(58,075)</u>
	<u>(335,878)</u>	<u>(567,410)</u>
<b>Financing Activities</b>		
Share capital issued for cash	380,000	-
Cash for private placement advances	15,000	-
Share issue costs	(8,750)	-
Repayment of Advances from Cortina Landfill Company	<u>-</u>	<u>(227,310)</u>
	<u>386,250</u>	<u>(227,310)</u>
<b>Investing Activities</b>		
Landfill project deferred costs	<u>(133,627)</u>	<u>(68,340)</u>
	<u>(133,627)</u>	<u>(68,340)</u>
<b>Increase in cash</b>	(83,255)	(863,060)
<b>Cash, beginning of year</b>	<u>90,779</u>	<u>953,839</u>
<b>Cash, end of year</b>	<u>\$ 7,524</u>	<u>\$ 90,779</u>
<b>Interest paid (received)</b>	\$ -	\$ -

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

**EARTHWORKS INDUSTRIES INC.**

*CONSOLIDATED SCHEDULE OF CORTINA LANDFILL PROJECT COSTS*

(Expressed in Canadian Dollars)

For the Years Ended November 30, 2019 and 2018

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	2019	2018
<b>Cortina Landfill Project</b>		
Project Engineering	\$ 133,627	\$ 68,340
Exchange Adjustment	(9,810)	337,543
Project Costs, beginning of the year	<u>10,873,959</u>	<u>10,468,076</u>
Project Costs, end of the year	<u>\$ 10,997,776</u>	<u>\$ 10,873,959</u>

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



**EARTHWORKS INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*Expressed in Canadian Dollars*  
For the Years Ended November 30, 2019 and 2018

	Number of Shares	Amount	Share Subscription Advances	Share Based Payment Reserves	Equity Portion of Convertible Loans	Accumulated Other Comprehensive Income - cumulative translation adjustment	Deficit	Total
Balance, November 30, 2017	65,881,832	19,619,365	-	2,460,614	289,599	688,556	(19,788,150)	3,269,984
Share issued for debt repayment	921,500	162,025	-	-	-	-	-	162,025
Share based compensation	-	-	-	154,825	-	-	-	154,825
Other comprehensive income	-	-	-	-	-	111,168	-	111,168
Net loss for the year	-	-	-	-	-	-	(1,150,197)	(1,150,197)
Balance, November 30, 2018	66,803,332	\$ 19,781,390	\$ -	\$ 2,615,439	\$ 289,599	\$ 799,724	\$ (20,938,347)	\$ 2,547,805
Shares issued for private placement	8,500,000	425,000	-	-	-	-	-	425,000
Advances on private placement	-	-	15,000	-	-	-	-	15,000
Share issue costs	-	(8,750)	-	-	-	-	-	(8,750)
Share based compensation	-	-	-	167,599	-	-	-	167,599
Other comprehensive income	-	-	-	-	-	(7,671)	-	(7,671)
Net loss for the year	-	-	-	-	-	-	(936,425)	(936,425)
Balance, November 30, 2019	75,303,332	\$ 20,197,640	\$ 15,000	\$ 2,783,038	\$ 289,599	\$ 792,053	\$ (21,874,772)	\$ 2,202,558

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

**EARTHWORKS INDUSTRIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
November 30, 2019 and 2018

**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 615, 800 West Pender Street, Vancouver, BC V6C 2V6.

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).

Notice of termination of this lease was issued again by the BIA on March 1, 2019. The Company has filed an appeal to the BIA.

These consolidated 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, and maintaining the lease to construct and operate its site in good standing 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. Note 15 contains a description of the possible negative impact that the Covid 19 virus could have on the Company and its ability to carry on its activities. These matters represent a material uncertainty that may raise significant doubt about the ability of the Company to continue as a going concern. These consolidated 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 March 2019 the Company renegotiated repayment terms for the payment of the Advances from Cortina Landfill Company ("CLC"). The amended terms provides for the principal amount of US\$4,644,916 to be paid over 9 years by 8 annual payments of US\$500,000 commencing March 31, 2021 with a final payment for the remaining balance (see Note 6) . The agreement provided for a payout option of US\$2,250,000 if paid on or before March 31, 2021.

**2 Significant Accounting Policies**

**a) Basis of Presentation**

These consolidated 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 consolidated financial statements have been prepared on the basis of IFRS that are effective for the Company's reporting year ended November 30, 2019.

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

**b) Consolidation of Financial Statements**

These consolidated 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.

**EARTHWORKS INDUSTRIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
November 30, 2019 and 2018

**2 Significant Accounting Policies (continued)**

**a) Financial Instruments**

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit and loss (FVTPL).

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company measures its cash and accounts receivables at amortized cost.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

The Company does not have any financial assets measured at FVOCI or FVTPL.

**(b) Impairment on Financial Assets**

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

**(c) Financial Liabilities**

Financial liabilities at amortized cost including accounts payable and accrued liabilities, Notes payable, advances from Cortina Landfill Company and accrued interest on convertible debt are subsequently measured at amortized cost, using the effective interest method.

International Financial Reporting Standard 7, Financial Instruments Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments include: cash, amounts receivable, accounts payable and accrued liabilities, due to related parties, notes payable, interest on convertible loans, and advances from Cortina Landfill Company. The carrying value of the financial instruments approximates their fair values. There were no assets or liabilities recorded at fair value as at November 30, 2019 and 2018.

**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.

**EARTHWORKS INDUSTRIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
November 30, 2019 and 2018

**2 Significant Accounting Policies (continued)**

**c) Financial Instruments (continued)**

**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.

**d) Cortina Landfill Project Costs**

The Company is proceeding with final federal approvals with respect to the development of 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 and 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 consolidated 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.

**EARTHWORKS INDUSTRIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
November 30, 2019 and 2018

**2 Significant Accounting Policies (continued)**

**g) Foreign Currency Translation (continued)**

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.

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 monthly average exchange rates

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 CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
November 30, 2019 and 2018

**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 consolidated 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; and
- the recognition of deferred income tax assets.

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.

**EARTHWORKS INDUSTRIES INC.**  
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**2 Significant Accounting Policies (continued)**

**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.

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 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, 2019 or later periods.

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

**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.

The Company intends to adopt IFRS 16 for its fiscal year 2020 and plans to use the modified retrospective approach which doesn't require restatement of prior year financial statements. The Company will continue to make its overall analysis and evaluate the potential impact on financial statements and additional disclosure requirements.

**q) Adoption of New Accounting Standards**

**IFRS 9, Financial Instruments**

The Company adopted IFRS 9 Financial Instruments on December 1, 2018 under the modified retrospective approach. Any adjustments to the carrying amount of financial assets and liabilities as of the date of transition were not significant.

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**2 Significant Accounting Policies (continued)**

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flow. The financial assets are subsequently measured at amortized cost, fair value through profit and loss or fair value through other comprehensive income. The table below summarized the classification and measurement of the Company's financial instruments accounted under IFRS 9 as compared to the previous policies in accordance with IAS 39. There were no assets or liabilities recorded at fair value as at November 30, 2019.

<b>Financial Assets</b>	<b>IAS 39</b>	<b>IFRS 9</b>
	Loans and receivables	
Cash	(amortized cost)	Amortized Cost
	Loans and receivables	
Accounts Receivable	(amortized cost)	Amortized Cost
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized Cost
Notes payable	Other financial liabilities (amortized cost)	Amortized Cost
Accrued Interest on convertible loan	Other financial liabilities (amortized cost)	Amortized Cost
Advances from Cortina Landfill Company	Other financial liabilities (amortized cost)	Amortized Cost

IFRS 9 also introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The Company did not have any significant receivables outstanding as at November 30, 2019 which required the use of the expected credit loss impairment model.

**Amendments to IFRS 2 – Share-Based Payment**

These amendments added guidance that introduces accounting requirements for cash-settled share-based payments that follow the same approach as used for equity-settled share-based payments. They introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Finally, they clarify the accounting treatment in situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The adoption of the amendment did not have a material impact on the Company's financial results.

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. The adoption of the interpretation did not have a material impact on the Company's financial results.



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**3 Financial Instruments and Financial Risk Management**

**a) Financial Instruments**

The Company had no fair-value-through-profit-or-loss financial assets as at November 30, 2019 and November 30, 2018.

**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, 2019, 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.

At November 30, 2019, the Company had current assets of \$23,403 (2018 - \$106,076) and current liabilities of \$1,522,730 (2018 - \$1,799,795). Management recognizes its liquidity risk and will pursue future equity financings and continued loans from related and other parties.

**EARTHWORKS INDUSTRIES INC.**  
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**3 Financial Instruments and Financial Risk Management (continued)**

**b) Financial Risk Management (continued)**

(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 obligations. Management may decide to consider hedging the risk in the future.

	November 30, 2019	November 30, 2018
Accounts payable and accrued liabilities - U.S dollars	\$ (37,498)	\$ (170,313)
Advances from Cortina Landfill Company and accrued interest - U.S. dollars	\$ (5,491,868)	(5,189,766)

U.S. Dollars are translated at Cdn \$1.3289 at November 30, 2019 (2018 - Cdn \$1.3301).

At November 30, 2019, 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 \$549,000 higher (2018 - \$517,000). 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 \$549,000 lower (2018 - \$517,000).

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.

**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 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 balance its overall capital structure 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, 2019 and 2018. The Company is not subject to externally imposed capital requirements.

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**5 Equipment**

	Computer equipment	Office equipment	Total
<b>Cost</b>			
November 30, 2017	\$ 27,662	\$ 14,586	\$ 42,248
Additions	-	-	-
November 30, 2018	\$ 27,662	\$ 14,586	\$ 42,248
Additions	-	-	-
November 30, 2019	\$ 27,662	\$ 14,586	\$ 42,248
<b>Accumulated amortization</b>			
November 30, 2017	23,060	13,687	36,747
Amortization	1,382	899	2,281
November 30, 2018	\$ 24,442	\$ 14,586	\$ 39,028
Amortization	966	-	966
November 30, 2019	\$ 25,408	\$ 14,586	\$ 39,994
<b>Net book value</b>			
November 30, 2018	\$ 3,220	\$ -	\$ 3,220
November 30, 2019	\$ 2,254	\$ -	\$ 2,254

**6 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.

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.

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 agreement amendments and extensions were agreed to (in U.S. dollars).

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.

On August 19, 2013, the Company received a Notice of Termination of its lease on the Cortina Rancheria. 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.

The Company received a second notice dated March 1, 2019 from the US Bureau of Indian Affairs advising that the Lease held by the Company with the Kletsel Dehe Band of Wintun Indians has been terminated. The Company believes that the allegations are unfounded and will not be upheld. The Company has filed an appeal.

**EARTHWORKS INDUSTRIES INC.**  
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**6 Cortina Landfill Project (continued)**

**Cancellation and Replacement of the Agreement**

In March 2019 the Company entered into an amended agreement for the loan payable to North Bay/CLC. The March 2018 amended Agreements and subsequent amendments, has been cancelled and replaced as follows:

The amended agreement provides for the principal amount of US\$4,644,916, with instalments payable annually commencing March 31, 2021. The payout option of the amended agreement has increased to US\$2,250,000 and the deadline for the exercise of the payout option is extended to March 31, 2021. In addition, the Company has issued US\$20,000 of shares pursuant to the Company's subsequent private placement. The Company borrowed an additional US\$50,000 from CLC which was repaid during 2019. In the event that The Company signs and closes an arms length agreement to sell 100% of the shares of the Company exceeding the balance amount, the following will result:

- i) The Company will pay to CLC the whole amount of the balance amount and accrued interest owing.
- ii) The Company will pay to CLC 10% of the amount received less the amount paid in part (i) and less the Company's direct investment and costs into the project being US\$6,720,633.

If the Company undertakes any equity financing prior to the full payment date of the Balance Account, North Bay/CLC shall have the option to apply all or part of any accrued and unpaid interest to the purchase of securities of the The Company on the same terms and conditions offered to other participants in the equity financing.

If any payment required under this Agreement is not paid in full within 30 days after the due date, 100% of the shares of the issued shares of CIWM will automatically and without notice vest in North Bay/CLC, who would then become the sole owner of the CIWMI. CIWMI holds the lease to construct and operate an integrated waste management project located on the Cortina Indian Rancheria in Colusa County, California.

<u>Advances from CLC</u>	<u>November 30, 2019</u>	<u>November 30, 2018</u>
Beginning of year	\$ 6,902,908	\$ 6,648,008
Repayments	(25,000)	(389,335)
Accrued interest	426,194	427,799
Foreign exchange adjustment	<u>(5,957)</u>	<u>216,436</u>
Balance, end of year	7,298,145	6,902,908
Less: Current portion	<u>-</u>	<u>(266,020)</u>
Non-current portion	<u>\$ 7,298,145</u>	<u>\$ 6,636,888</u>

The remaining principals are payable as follows:

<u>Principal (USD)</u>	<u>Due Date</u>
\$ 180,000	March 31, 2021
500,000	March 31, 2022
500,000	March 31, 2023
500,000	March 31, 2024
500,000	March 31, 2025
500,000	March 31, 2026
500,000	March 31, 2027
500,000	March 31, 2028
<u>944,916</u>	March 31, 2029
<u>\$ 4,624,916</u>	

**Payout Option**

Earthworks has been granted an option ("Payout Option") to wholly settle the Balance Amount and all accrued interest by paying North Bay/CLC, on or before March 31, 2021, US\$2,250,000.

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**7 Notes Payable**

	November 30, 2019	November 30, 2018
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. The principal has been repaid leaving the accrued interest payable.	\$ 10,253	\$ 9,806
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.	140,958	135,333
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.	543,570	518,687
	\$ 694,781	\$ 663,826

**8 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 had the option to, 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 entitled 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 was accreted over the period of the loans using the effective-interest-rate method at a weighted average effective interest rate of 33.94% and included in convertible loan interest and accretion expense.

The loans 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 was payable on the Maturity Date.

The lenders made the loans to the Company on an unsecured basis. They were issued 362,500 shares in the capital of the Company as bonuses. These shares are valued at \$0.35 per share (\$126,875).

In 2014, the Company repaid \$525,000 in principal of the convertible loan. The Debtholder agreed to extend the term of the remaining principal balance of \$200,000 and unpaid accrued interest of \$210,231 until May 31, 2015.

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). At November 30, 2015, the remaining obligation included the remaining principal balance of \$140,500 and unpaid accrued interest of \$244,550.

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**8 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. During the year ended November 30, 2016 the debtholder agreed to extend the term of the remaining convertible loan until November 30, 2017. 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 November 30, 2019 the principal obligation has been paid and unpaid accrued interest of \$337,510 (2018 - \$329,521) remains outstanding.

	Carrying Value of	
	Debt Portion	Equity Portion
Balance November 30, 2017 and 2018	\$ -	\$ 289,599
Repayments	-	-
Accretion	-	-
Accrued interest	-	-
Balance November 30, 2019	<u>\$ -</u>	<u>\$ 289,599</u>
	Year ended	Year ended
	November 30, 2019	November 30, 2018
Accrued interest	\$ 27,989	\$ 26,761
Accretion	-	-
Convertible loan interest and accretion for the year	<u>\$ 27,989</u>	<u>\$ 26,761</u>

**9 Share Capital**

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

**Transactions for the Issue of Share Capital During the year ended November 30, 2019:**

Transaction	Date of Issue	Shares issued	Amount	Warrants issued
Units issued	13-May-19	<u>8,500,000</u>	<u>\$ 425,000</u>	<u>4,250,000</u>
		<u>8,500,000</u>	<u>\$ 425,000</u>	<u>4,250,000</u>

**Transactions for the Issue of Share Capital During the year ended November 30, 2018:**

Transaction	Date of Issue	Shares issued	Amount
Shares issued for debt payment	28-Mar-18	<u>921,500</u>	<u>\$ 162,025</u>
		<u>921,500</u>	<u>\$ 162,025</u>

**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.

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**9 Share Capital (continued)**

A summary of the status of the Company's stock option plan as at November 30, 2019, and November 30, 2018, and changes during the years then ended is as follows:

	2019		2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options Outstanding, beginning of year	5,540,000	\$ 0.20	4,490,000	\$ 0.20
Expired / Cancelled	(1,100,000)	0.21	-	-
Granted	1,510,000	0.10	1,050,000	0.20
<b>Options Outstanding, end of year</b>	<b>5,950,000</b>	<b>\$ 0.10</b>	<b>5,540,000</b>	<b>\$ 0.20</b>

During the year ended November 30, 2019, the Company re-priced 4,440,000 options to an exercise price of \$0.10 per option, and extended the expiry dates to June 30, 2022. The modified options were re-valued using Black Scholes as of the modification date of June 30, 2019. The modifications resulted in an increase of \$95,583 in share based compensation for the year ended November 30, 2019.

The Company has outstanding stock options to acquire 5,540,000 shares of the Company's capital stock as follows:

Number of Options	Exercise Price (\$)	Expiry Date
5,950,000	0.10	June 30, 2022
<b>5,950,000</b>	<b>0.10</b>	

During the year ended November 30, 2019, the Company granted the following stock options:

1,510,000 options expiring June 30, 2022 with an exercise price of \$0.10.

During the year ended November 30, 2018, the Company granted the following stock options:

1,050,000 options expiring January 8, 2023 with an exercise price of \$0.20. These were repriced in 2019 to \$0.10 with a revised expiry date of June 30, 2022.

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

	2019	2018
Share price	\$ 0.075	\$ 0.17
Exercise price	\$ 0.10	\$ 0.20
Estimated annual volatility	114.00%	134.97%
Risk-free interest rate	1.45%	1.95%
Expected life (years)	3	5
Expected dividend yield	\$ -	\$ -

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

The following table summarizes information about the stock options outstanding and exercisable at November 30, 2019:

Range of Prices (\$)	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)
\$0.10	5,950,000	2.58	0.10
	<b>5,950,000</b>	<b>2.58</b>	<b>0.10</b>

**Escrow Shares**

The Company has no outstanding escrow shares.

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**9 Share Capital (continued)**

**Warrants**

	2019	2018
Balance, beginning of year	9,348,800	9,348,800
Issued	4,250,000	-
Exercised	-	-
Expired	(9,348,800)	-
Balance, end of year	<u>4,250,000</u>	<u>9,348,800</u>
Weighted Avg. Exercise Price	\$ <u>0.10</u>	\$ <u>0.21</u>

Earthworks extended the expiry dates of 9,348,800 warrants exercisable at \$0.25, \$0.21 and \$0.20, to May 31, 2019. At November 30, 2019, the Company had warrants outstanding as follows:

Number of Warrants	Exercise Price \$	Expiry Date
4,250,000	0.10	May 13, 2020
<u>4,250,000</u>		

**10 Related Party Transactions**

- a) Management salaries totaling \$133,357 (2018 - \$131,769) were incurred with David Atkinson, CEO/President of the Company.
- b) Directors' fees totaling \$9,000 (2018 - \$9,000) were incurred with a corporation controlled by a Director of the Company.
- c) Directors' fees totaling \$18,000 (2018 - \$9,000) were incurred with Directors of the Company.
- d) Legal fees totaling \$35,521 (2018 - \$37,999) 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 \$33,181 (2018 - \$33,400) were incurred with a Director and Officer of the Company.
- f) During the current year interest totaling \$30,955 (2018 - \$26,761) was accrued on unpaid accrued interest to a director of the Company. See Note 8.
- g) Notes payable issued for advances by the Secretary of the Company amount to \$10,253 (2018 - \$9,806). During the current year, interest totaling \$447 (2018 - \$524) was accrued on this debt.
- h) Notes payable issued for advances by a Director of the Company amount to \$395,840 (2018 - \$377,006). During the current year, interest totaling \$18,834 (2018 - \$17,862) was accrued on this debt.
- i) Share based compensation totaling \$43,400 (2018 - \$154,748) was incurred with related parties.

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



**EARTHWORKS INDUSTRIES INC.**  
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**10 Related Party Transactions (continued)**

Key Management Personnel Compensation

	November 30, 2019	November 30, 2018
Directors' fees	\$ 27,000	\$ 18,000
Accounting fees	33,180	33,400
Management fees and salaries	133,357	131,769
	<u>\$ 193,537</u>	<u>\$ 183,169</u>

The amounts due to related parties included in accounts payable and accrued liabilities were 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.

	November 30, 2019	November 30, 2018
Due to the CEO, President and Director	\$ 158,410	\$ 96,014
Due to Directors	67,500	40,500
Due to a law firm within which a personal law corporation controlled by the Secretary of the Company is a principal	107,900	96,600
Due to an Officer	-	160
	<u>\$ 333,810</u>	<u>\$ 233,274</u>

**11 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, 2019	November 30, 2018
Net loss for the year before tax	\$ (936,425)	\$ (1,150,196)
Statutory Canadian corporate tax rate	27.00%	26.92%
Anticipated tax expenses (recovery)	(252,836)	(309,633)
Change in tax rates	-	(382)
Tax benefits not recognised	(2,363)	-
Non-capital loss expired	322	-
Non-deductible items for tax purposes	45,726	42,495
Difference in tax rates in other jurisdictions	9,376	15,050
Change in tax benefits	199,775	252,470
Current and deferred income tax	<u>\$ -</u>	<u>\$ -</u>

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

	November 30, 2019	November 30, 2018
Research and development	\$ 620,127	\$ 493,347
Equipment	16,954	16,694
Non-capital loss carry forwards	1,892,276	1,912,880
Share issue costs	1,890	132
Note payable	76,345	-
Convertible debenture	33,533	-
Unrecognized tax assets	(2,641,125)	(2,423,053)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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 \$6,845,000 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	457,000
2036	415,000
2037	524,000
2038	480,000
2039	31,000
	<u>\$ 6,845,000</u>

**EARTHWORKS INDUSTRIES INC.**  
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**11 Income Taxes (continued)**

At November 30, 2019 the Company has unclaimed landfill costs for Canadian income tax purposes in the amount of \$235,621 (2018 - \$235,621) which may be deducted against future taxable income on a discretionary basis.

The Company has available tax loss carry forwards of approximately US\$217,000 (2018 - US\$185,000) 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 2018 and 2038.

At November 30, 2019, the Company has unclaimed landfill costs for US income tax purposes in the amount of approximately US\$9,679,800 (2018 - US\$9,258,800) which may be deducted against future taxable income on a discretionary basis.

**12 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
November 30, 2019					
Equipment	\$ 2,254		\$ -		\$ 2,254
Cortina Landfill Project	-		10,997,776		10,997,776
	\$ 2,254		\$ 10,997,776		\$ 11,000,030
November 30, 2018					
Equipment	\$ 3,220		\$ -		\$ 3,220
Cortina Landfill Project	-		10,873,959		10,873,959
	\$ 3,220		\$ 10,873,959		\$ 10,877,179

**13 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 than 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.**  
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**14 Supplemental Cash Flow Information**

Changes in non-cash working capital for the years ended November 30, 2019 and 2018 were comprised of the following:

	<b>2019</b>	<b>2018</b>
Good and Services sales tax recoverable	\$ 345	\$ 1,228
Prepaid expenses and deposits	306	(9,848)
Accounts payable and accrued liabilities	86,237	(49,455)
<b>Net Change</b>	<b>\$ 86,888</b>	<b>\$ (58,075)</b>

The Company incurred non-cash financing and investing activities during the year ended November 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Non-cash financing and investing activities:		
Issue of share capital for:		
Shares issued to partially settle a loan payment	\$ 25,000	\$ 162,025
Shares issued for interest	\$ 20,000	\$ -

During the year ended November 30, 2019 the Company accepted an offer from one of its suppliers to settle an outstanding account payable. This resulted in a gain of \$140,012.

**15 Subsequent events**

- a) In January, 2020 the Company has closed Private Placement sales of 2,200,000 Units at \$0.10 per Unit to provide the Company with gross proceeds of \$220,000. Finders fee of \$3,500 are being paid. The Placements were of Units each consisting of one share of the Company and 1/2 of a Share Purchase Warrant. A whole Warrant will be exercisable to purchase one additional share of the Company for \$0.15 until January 17, 2021.
- b) In January, 2020 the Company has granted a total of 400,000 Share Purchase Options to a Director and a service provider. The Options will be exercisable until June 30, 2022 at \$0.10 per share.

- Since the Year End, the outbreak of a new strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measure to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness.
- c) Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID—19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiary in future periods. As a result of these problems the Company may not be able to raise the additional funding it will require to carry on its activities.