

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 condensed consolidated interim financial statements of the Company have been prepared by management.

The Company's independent auditors have not performed a review of these condensed consolidated interim 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 May 31, 2018 and 2017 and November 30, 2017

	May 31 2018	November 30 2017	May 31 2017
ASSETS			
Current Assets			
Cash	\$ 341,933	\$ 953,839	\$ 1,299,346
Goods and Services tax recoverable	1,726	2,063	3,657
Prepaid expenses	<u>21,124</u>	<u>4,614</u>	<u>8,275</u>
	364,783	960,516	1,311,278
Equipment	3,910	5,501	1,307
Cortina Landfill Project (notes 2 and 5)	10,550,858	10,468,076	10,956,583
Deposits	<u>1,233</u>	<u>1,233</u>	<u>1,233</u>
	<u>\$ 10,920,784</u>	<u>\$ 11,435,326</u>	<u>\$ 12,270,401</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities (note 9)	\$ 543,308	\$ 579,944	\$ 642,677
Notes payable (note 6)	648,871	634,630	738,432
Advances from Cortina Landfill Company (note 5)	258,960	386,640	405,000
Accrued interest on convertible loans (note 7)	319,809	302,760	296,774
Liability component of convertible loans (note 7)	<u>-</u>	<u>-</u>	<u>130,811</u>
	1,770,948	1,903,974	2,213,694
Long Term Liabilities			
Advances from Cortina Landfill Company (note 5)	<u>6,031,558</u>	<u>6,261,368</u>	<u>6,351,395</u>
	7,802,506	8,165,342	8,565,089
SHAREHOLDERS' EQUITY			
Share capital (note 8)	19,781,390	19,619,365	19,362,365
Contributed surplus (note 8)	2,615,439	2,460,614	2,460,614
Equity portion of convertible loans (note 7)	289,599	289,599	289,599
Accumulated other comprehensive income	703,408	688,556	873,743
Deficit	<u>(20,271,558)</u>	<u>(19,788,150)</u>	<u>(19,281,009)</u>
	<u>3,118,278</u>	<u>11,435,326</u>	<u>3,705,312</u>
	<u>\$ 10,920,784</u>	<u>\$ 11,435,326</u>	<u>\$ 12,270,401</u>

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

Approved on Behalf of the Board on July 22, 2018:

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 Six and Three Months ended May 31, 2018 and 2017

	Six months ended May 31, 2018	Six months ended May 31, 2017	Three months ended May 31, 2018	Three months ended May 31, 2017
Administration Costs				
Amortization	\$ 1,591	\$ 602	\$ 345	\$ 451
Bank charges and interest (note 9)	14,972	16,252	7,471	8,166
Convertible loan interest and accretion (note 7)	17,048	27,776	8,615	14,083
Directors' fees (note 9)	9,000	9,000	4,500	4,500
Finder's fees	-	13,000	-	13,000
Interest on advances from Cortina Landfill Company	-	223,794	-	114,080
Management salaries (note 9)	65,885	67,492	32,943	33,199
Office and administrative costs	18,819	19,509	13,553	14,287
Professional fees (note 9)	113,472	37,450	99,357	27,764
Promotion	20,514	25,025	10,251	23,436
Rent and parking	11,233	7,763	5,707	6,765
Salaries and benefits	25,223	16,299	9,771	7,599
Share based compensation	154,825	541,288	-	541,288
Stock exchange and filing fees	10,543	35,116	9,536	20,172
Telephone and internet	2,790	2,806	1,428	2,001
Transfer agent	3,146	2,988	2,183	2,614
Travel	14,347	6,895	12,211	4,812
Loss for the period	483,408	1,053,055	217,871	838,217
Other Comprehensive Loss (Income)				
Exchange difference on translation of foreign operations	14,852	16,060	(7,238)	59,214
Comprehensive loss (gain) for the period	\$ 498,260	\$ 1,069,115	\$ 210,633	\$ 897,431
Basic and diluted loss per share	\$ 0.01	\$ 0.02	\$ -	\$ 0.02
Weighted average number of common shares outstanding - basic and diluted	65,667,034	55,199,708	65,667,034	55,199,708

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 Six Months Ended May 31, 2018 and 2017 and the Year Ended November 30, 2017

	Six months ended May 31, 2018	Year Ended November 30, 2017	Six months ended May 31, 2017
Operating Activities			
Net income (loss) for the year	\$ (483,408)	\$ (1,560,196)	\$ (1,053,055)
Adjust for non-cash items:			
Amortization	1,591	604	602
Interest on advances from Cortina Landfill Company	-	446,203	223,794
Interest	14,242	29,393	15,695
Convertible loan interest and accretion	17,048	48,106	27,776
Share based compensation	154,825	541,288	541,288
Loss (gain) on settlement of convertible loans	-	25,016	-
	<u>(295,702)</u>	<u>(469,586)</u>	<u>(243,900)</u>
Change in non-cash working capital accounts (note 13)	<u>(57,138)</u>	<u>(126,383)</u>	<u>(47,364)</u>
	<u>(352,840)</u>	<u>(595,969)</u>	<u>(291,264)</u>
Financing Activities			
Share capital issued for cash	-	2,016,110	1,885,360
Loan repayment	-	(258,000)	-
Share subscription advance	-	-	(106,250)
Payments to Cortinal Landfill Company	(226,415)	(273,250)	(270,000)
Interest payment on loans	-	(9,500)	-
	<u>(226,415)</u>	<u>1,475,360</u>	<u>1,509,110</u>
Investing Activities			
Landfill project deferred costs	(32,651)	(8,260)	-
Purchase of computer equipment	-	(4,196)	-
	<u>(32,651)</u>	<u>(12,456)</u>	<u>-</u>
Effects of foreign exchange on cash balances	<u>-</u>	<u>-</u>	<u>(5,424)</u>
Increase (decrease) in cash	(611,906)	866,935	1,212,422
Cash, beginning of period	<u>953,839</u>	<u>86,924</u>	<u>86,924</u>
Cash, end of period	<u>\$ 341,933</u>	<u>\$ 953,859</u>	<u>\$ 1,299,346</u>
Interest paid (received)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid (received)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 Six Months Ended May 31, 2018 and 2017 and the Year Ended November 30, 2017

	Six months ended May 31, 2018	Year Ended November 30, 2017	Six months ended May 31, 2017
Cortina Landfill Project			
Project engineering	<u>32,651</u>	<u>8,280</u>	<u>-</u>
Costs incurred during the year	<u>32,651</u>	<u>8,280</u>	<u>-</u>
Exchange Adjustment	50,131	(439,163)	57,624
Project Costs, beginning of the year	<u>10,468,076</u>	<u>10,898,959</u>	<u>10,898,959</u>
Project Costs, end of the period	<u>\$ 10,550,858</u>	<u>\$ 10,468,076</u>	<u>\$ 10,956,583</u>

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

EARTHWORKS INDUSTRIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the Years Ended November 30, 2016 and 2017 and the six months ended May 31, 2018 and May 31, 2017

	Number of Shares	Amount	Share subscription advance	Contributed Surplus	Equity Portion of Convertible Loans	Accumulated Other Comprehensiv e Income (Loss) - cumulative translation adjustment	Deficit	Total
Balance, November 30, 2016	54,617,532	\$ 17,477,005	\$ 106,250	\$ 1,919,326	\$ 289,599	\$ 857,683	\$ (18,227,954)	\$ 2,421,909
Units offering (net of compensation)	9,914,300	1,885,360	(106,250)	-	-	-	-	1,779,110
Other comprehensive income (loss)	-	-	-	-	-	16,060	-	16,060
Share based compensation	-	-	-	541,288	-	-	-	541,288
Net loss for the period	-	-	-	-	-	-	(1,053,055)	(1,053,055)
Balance, May 31, 2017	64,531,832	\$ 19,362,365	\$ -	\$ 2,460,614	\$ 289,599	\$ 873,743	\$ (19,281,009)	\$ 3,705,312
Units offering (net of compensation)	1,350,000	257,000	-	-	-	-	-	257,000
Warrants exercised	-	-	-	-	-	-	-	-
Share based compensation	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	(185,187)	-	(185,187)
Net loss for the period	-	-	-	-	-	-	(507,141)	(507,141)
Balance, November 30, 2017	65,881,832	\$ 19,619,365	\$ -	\$ 2,460,614	\$ 289,599	\$ 688,556	\$ (19,788,150)	\$ 3,269,984
Other comprehensive income (loss)	-	-	-	-	-	-	-	-
Shares issued for debt repayment	921,500	162,025	-	-	-	-	-	162,025
Share based compensation	-	-	-	154,825	-	-	-	154,825
Other comprehensive income (loss)	-	-	-	-	-	14,852	-	14,852
Net loss for the period	-	-	-	-	-	-	(483,408)	(483,408)
Balance, May 31, 2018	66,803,332	\$ 19,781,390	\$ -	\$ 2,615,439	\$ 289,599	\$ 703,408	\$ (20,271,558)	\$ 3,118,278

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

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
May 2018 and 2017

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).

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.

- X** In 2017 the Company renegotiated repayment terms for the payment of the Advances from Cortina Landfill Company. Under the renegotiated repayment terms, payment of US\$300,000 in cash is due on March 31, 2018. The Company has pledged 100% of the shares of CIWM in escrow. If the payment 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 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.

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, 2017. 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 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)
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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 May 31, 2018, and 2017, 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)
May 2018 and 2017

2 Significant Accounting Policies (continued)

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 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.

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.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
May 2018 and 2017

2 Significant Accounting Policies (continued)

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.

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.

EARTHWORKS INDUSTRIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
May 2018 and 2017

2 Significant Accounting Policies (continued)

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

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.

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, 2017 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 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 amortized cost or fair value. To be classified and measured at amortized 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 recognized 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

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2 Significant Accounting Policies (continued)

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.

These amendments are 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, 2018.

3 Financial Instruments and Financial Risk Management

a) Financial Instruments

The Company has classified its financial instruments as follows:

Financial assets:

Loans and receivables, measured at amortized cost:

Cash

Other financial liabilities, recorded at amortized cost:

Accounts payable and accrued liabilities

Notes payable

Liability component and accrued interest on convertible loan

Advances from Cortina Landfill Company

The Company had no fair-value-through-profit-or-loss, available-for-sale, nor held-to-maturity financial instruments as at May 31, 2018, November 30, 2017 and May 31, 2017.

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 February 28, 2018, 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 May 31, 2018, the Company had current assets of \$364,783 (2017 - \$1,311,278) and current liabilities of \$1,770,948 (2017 - \$2,213,694). Management recognizes its liquidity risk and will pursue future equity financings and continued loans from related and other parties.

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3 Financial Instruments and 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.

	May 31, 2018	May 31, 2017
Accounts payable and accrued liabilities - U.S dollars	\$ (396,702)	\$ (200,312)
Advances from Cortina Landfill Company and accrued interest - U.S. dollars	\$ (4,644,916)	\$ (5,000,000)

U.S. Dollars are translated at Cdn \$1.2948 at May 31, 2018 (2017- Cdn \$1.35).

At May 31, 2018, 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 \$409,000 higher (2017 - \$426,000). 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 \$409,000 lower (2017 - \$426,000).

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, 2017 and 2016. 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.

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.

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5 Cortina Landfill Project (continued)

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 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.

In December 2015 and subsequently amended in May 2016, the Company renegotiated repayment terms for the payment of the final US\$5,000,000 payment to North Bay/CLC. In March, 2018 the Company concluded a new agreement which relaced all previous agreements and amendments thereto.

Cancellation and Replacement of the Agreement

On March 20, 2018 the Company concluded a new settlement agreement with CLC with regard to the repayment of the outstanding balance owing. The previous agreement has been cancelled. The new agreement provides for the principal amount of US\$4,944,916 to be paid over 9 years by 8 annual payments of US\$500,000 and a final payment in the 9th year of the remaining principal plus accrued interest at 7% compounded annually. The new agreement provides for immediate payment of US\$300,000 in the form of US\$175,000 cash and 921,500 shares of the Company with a deemed value of US\$125,000 upon TSX Venture Exchange approval. This payment will be applied to the US\$500,000 payment that is due March 31, 2019. The Agreement provides for a payout option of US\$1,750,000 if paid on or before March 31, 2019. In the event the payout option is exercised, the immediate payment amount of US\$300,000 would be applied to reduce the payout amount.

On April 17, 2018 the Company made the payment of US\$300,000 in the form of shares and cash as described above. The remaining payment of US\$200,000 is due March 31, 2019. (see payment schedule below)

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 Earthworks Industries Inc. 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 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.

<u>Advances from CLC</u>	<u>May 31, 2018</u>	<u>November 30, 2017</u>
Beginning of year	\$ 6,261,368	\$ 6,766,461
Repayments	(388,440)	(273,250)
Accrued interest	-	446,203
Gain on debt settlement	-	(29,860)
Foreign exchange adjustment	<u>417,590</u>	<u>261,546</u>
Balance, end of year	6,290,518	6,648,008
Less: Current portion	<u>(258,960)</u>	<u>(386,640)</u>
Non-current portion	<u>\$ 6,031,558</u>	<u>\$ 6,261,368</u>

The remaining principal is payable as follows:

<u>Principal (USD)</u>	<u>Due Date</u>
\$ 200,000	March 31, 2019
500,000	March 31, 2020
500,000	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
<u>944,916</u>	March 31, 2027
<u>\$ 4,644,916</u>	

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6 Notes Payable

	May 31, 2018	November 30, 2017
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.	\$ 9,590	\$ 9,382
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.	132,669	130,159
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.	506,612	495,089
	\$ 648,871	\$ 634,630

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 may, 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 will consist 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 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 has 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. The balance of the principal outstanding has been paid as at November 30, 2017. Accrued interest of \$311,193 remains unpaid.

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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. 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 May 31, 2018 the principal obligation has been paid (2017 - \$130,811) and unpaid accrued interest of \$319,809 (2017 - \$296,774) remains outstanding.

	Carrying Value of	
	Debt Portion	Equity Portion
Balance November 30, 2015	\$ 121,805	\$ 270,220
Allocation of equity portion of remaining convertible loan	(19,379)	19,379
Accretion	18,695	
Balance November 30, 2016	<u>\$ 121,121</u>	<u>\$ 289,599</u>
Repayments	(140,500)	-
Accretion	14,534	-
Loss on settlement of convertible loans	4,845	-
Balance November 30, 2017 and May 31, 2018	<u>\$ -</u>	<u>\$ 289,599</u>
	Six months ended May 31, 2018	Year ended November 31, 2017
Accrued interest	\$ 17,048	\$ 33,572
Accretion	-	14,534
Convertible loan interest and accretion for the year	<u>\$ 17,048</u>	<u>\$ 48,106</u>

8 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 six months ended May 31, 2018:

Transaction	Date of Issue	Shares issued	Amount	Warrants issued
Shares issued to repay advances to CLC	29-Mar-18	921,500	\$ 125,000	-

Transactions for the Issue of Share Capital During the year ended November 30, 2017:

Transaction	Date of Issue	Shares issued	Amount	Warrants issued
Units offering @ \$.125	16-Dec-16	1,300,000	\$ 162,500	650,000
Units offering @ \$.20	03-May-17	6,250,000	1,250,000	6,250,000
Units offering @ \$.20	28-Apr-17	572,300	114,460	572,300
Warrants exercised @\$.20		3,142,000	628,400	-
		<u>11,264,300</u>	<u>\$ 2,155,360</u>	<u>7,472,300</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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8 Share Capital (continued)

A summary of the status of the Company's stock option plan as at May 31, 2018, and November 30, 2017, and changes during the periods then ended is as follows:

	Six months ended May 31, 2018		Year ended November 30, 2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options Outstanding, beginning of year	4,490,000	\$ 0.20	2,755,000	\$ 0.15
Expired / Cancelled	-	-	(675,000)	0.15
Granted	1,050,000	0.20	2,410,000	0.25
Options Outstanding, end of period	5,540,000	\$ 0.20	4,490,000	\$ 0.20

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
2,080,000	0.15	Nov 30, 2019
2,410,000	0.25	May 7, 2022
1,050,000	0.20	Jan 8, 2023
5,540,000	0.20	

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.

During the year ended November 30, 2017, the Company granted the following stock options:

2,410,000 options expiring May 7, 2022 with an exercise price of \$0.25.

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:

	2018	2017
Share price	\$ 0.17	\$ 0.26
Exercise price	\$ 0.20	\$ 0.25
Estimated annual volatility	136.64%	130.97%
Risk-free interest rate	1.20%	1.20%
Expected life (years)	5	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 May 31, 2018:

Range of Prices (\$)	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)
\$0.15	2,080,000	1.50	0.15
\$0.20	1,050,000	4.75	0.20
\$0.25	2,410,000	3.94	0.25
	5,540,000	3.18	0.20

Escrow Shares

The Company has no outstanding escrow shares.

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8 Share Capital (continued)

Warrants

	2017	2016
Balance, beginning of year	13,364,000	11,487,500
Issued	7,472,300	1,876,500
Exercised	(3,142,000)	-
Expired	(8,345,500)	-
Balance, end of year	<u>9,348,800</u>	<u>13,364,000</u>
Weighted Avg. Exercise Price	\$ <u>0.21</u>	\$ <u>0.20</u>

Number of Warrants	Exercise Price \$	Expiry Date
1,419,000	0.20	Aug 15, 2018
100,000	0.20	Aug 31, 2018
650,000	0.20	Dec 16, 2018
357,500	0.25	Dec 31, 2018
6,250,000	0.21	Dec 31, 2018
<u>572,300</u>	<u>0.25</u>	<u>Dec 31, 2018</u>
<u>9,348,800</u>		

9 Related Party Transactions

- a) Management salaries totaling \$65,885 (2017 - \$67,184) were incurred with David Atkinson, CEO/President of the Company.
- b) Directors' fees totaling \$4,500 (2017 - \$4,500) were incurred with a corporation controlled by a Director of the Company.
- c) Directors' fees totaling \$4,500 (2017 - \$4,500) were incurred with a Director of the Company.
- d) Legal fees totaling \$20,954 (2017 - \$10,570) 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 \$16,200 (2017 - \$12,122) were incurred with an officer of the Company.
- f) Convertible loans totaling \$nil (2017 - \$140,500) 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 \$17,048 (2017 - \$19,509) was accrued on this debt. See Note 7.
- g) Notes payable issued for advances by the Secretary of the Company amount to \$9,484 (2017 - \$32,799). During the current year, interest totaling \$207 (2017 - \$351) was accrued on this debt.
- h) Notes payable issued for advances by a Director of the Company amount to \$367,866 (2017 - \$375,271). During the current year, interest totaling \$8,722 (2017 - \$7,830) was accrued on this debt.
- i) Share based compensation totaling \$154,825 (2017 - \$nil) 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.

Key Management Personnel Compensation

	May 31, 2018	May 31, 2017
Directors' fees	\$ 9,000	\$ 9,000
Accounting fees	16,200	12,122
Management fees and salaries	65,885	67,184
	<u>\$ 91,085</u>	<u>\$ 88,306</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.

	May 31, 2018	May 31, 2017
Due to the CEO, President and Director	\$ 106,895	\$ 139,384
Due to Directors	31,500	32,250
Due to a law firm within which a personal law corporation controlled by the Secretary of the Company is a principal	93,071	13,570
	<u>\$ 231,466</u>	<u>\$ 185,204</u>

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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, 2017	November 30, 2016
Net income (loss) for the year before tax	\$ (1,560,196)	\$ (746,645)
Statutory Canadian corporate tax rate	26.00%	26.00%
Anticipated tax expenses (recovery)	(406,757)	(194,128)
Change in tax rates	93,372	-
Non-deductible items for tax purposes	142,789	2,061
Difference in tax rates in other jurisdictions	(84,901)	(56,200)
Change in tax benefits	255,497	248,267
Current and deferred income tax	\$ -	\$ -

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

	November 30, 2017	November 30, 2016
Research and development	\$ 353,000	\$ 310,000
Equipment	16,000	15,000
Non-capital loss carry forwards	1,756,000	1,560,000
Share issue costs	1,000	3,000
Convertible loan	-	(5,000)
Unrecognized tax assets	(2,126,000)	(1,883,000)
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 \$6,334,000 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
	\$	6,334,000

At November 30, 2017, the Company has unclaimed landfill costs for Canadian income tax purposes in the amount of \$235,621 (2016 - \$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\$116,000 (2016 - US\$84,000) 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 2037.

At November 30, 2017, the Company has unclaimed landfill costs for US income tax purposes in the amount of approximately US\$8,874,000 (2016 - US\$8,539,000) 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
May 31, 2018			
Equipment	\$ 3,910	\$ -	\$ 3,910
Cortina Landfill Project	-	10,550,858	10,550,858
	\$ 3,910	\$ 10,550,858	\$ 10,554,768
May 31, 2017			
Equipment	\$ 2,211	\$ -	\$ 2,211
Cortina Landfill Project	-	10,625,393	10,625,393
	\$ 2,211	\$ 10,625,393	\$ 10,627,604

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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 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.

13 Supplemental Cash Flow Information

Changes in non-cash working capital for the six months ended May 31, 2018 and 2017 were comprised of the following:

	2018	2017
Good and Services sales tax recoverable	\$ 337	\$ (1,725)
Prepaid expenses	(16,510)	(2,970)
Accounts payable and accrued liabilities	(40,965)	(42,669)
Net Change	\$ (57,138)	\$ (47,364)

The Company incurred non-cash financing and investing activities during the six months ended May 31, 2018 and 2017:

	2018	2017
Non-cash financing and investing activities:		
Issue of share capital for:		
Shares issued to settle a payment to CLC/NB	\$ 162,025	\$

14 Subsequent events

- a) There are no subsequent events.