

Earthworks Industries Inc.
Management’s Discussion and Analysis – Third Quarter
Dated: October 24, 2023

The following discussion of the performance, financial condition and analysis of Earthworks Industries Inc. (the “Company”) for its fiscal quarter which ended, August 31, 2023, (the “Quarter”) – and for the period ending October 24, 2023, (the “Subsequent Period”) - should be read in conjunction with (1) the Company’s annual audited consolidated financial statements prepared for the year ended November 30, 2022, (the “Year End”), (2) the Company’s condensed consolidated interim financial statements prepared for the period ending August 31, 2023, (the “Financial Statements”) and (3) Press Releases issued by the Company during the past year and the Subsequent Period, all of which may be viewed on the System for Electronic Data Analysis and Retrieval at www.sedarplus.ca. Press Releases may also be read on the Company’s website at www.earthworksinc.com. The financial statements and related Notes have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts are expressed in Canadian Dollars unless otherwise indicated.

1. Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis (“MD&A”) may be deemed forward-looking statements. All statements other than statements of historical facts and possible future financings are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are no guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider the risks set forth below while reviewing any forward-looking statements.

2. General Discussion of Business Operations

a) Cortina Landfill Project

Since March 30, 2023, the date of the Company’s last annual MD&A, on-site water monitoring has been done with respect to the Cortina Landfill Project (“Project”) to be developed on leased California land through the Company’s wholly owned California subsidiary Cortina Integrated Waste Management Inc. (“CIWM”) (the Company and CIWM being hereinafter together called (“EWK/CIWM”). The efforts of Management since that date have therefore been focused on the raising of additional funding for the Company, further refinement of construction and other development costs and designing a financial model that will better reflect the value of the project to potential investors.

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2. General Discussion of Business Operations (cont'd)

b) Agreement to settlement with North Bay

As a result of the Amendment Agreement dated March 13, 2023, (subsequently amended in an agreement dated October 15, 2023 discussed in Section 4), the Company and North Bay have agreed:

1. The \$500,000 annual payment that was due March 31, 2023, is waived by North Bay;
2. The Company will exercise its option to buy out the existing \$5,900,000 loan from North Bay for \$2,500,000, which is to be paid on or before September 30, 2023;
3. The Company will also repay \$150,000 borrowed from North Bay under a separate loan agreement dated September 27, 2022, as part of the final payment;
4. The Company has also agreed to pay North Bay a 10% loan fee of \$265,000 - which was paid in June 2023 from the proceeds of the Company's financing which closed May 15, 2023;
5. Any failure by the Company to make payments under the option exercise will be deemed a breach of the Amendment Agreement, pursuant to which share certificates representing ownership of CIWM were transferred into an escrow account as security for the loan, and those share certificates will be irrevocably transferred to North Bay.

All references to monies above are in U.S. dollars.

Management exercised the option to buy out the North Bay loan at this time because, under a condition of the original settlement agreement, the option would be waived should the Company receive any expressions of interest or letters of intent to purchase the Project. Management felt it prudent to do so at this time. Accruing interest was also becoming very prohibitive.

The Cortina team have been almost exclusively focused on progressing the Project through the various levels of government and overcoming permitting, regulatory and legal hurdles. Our technical team of engineers, consultants, and lawyers have now reached the point where completion of the federal SSFRs, a major hurdle, is almost complete. Management will now begin to focus on marketing of the project to institutional and industry interests as the federal SSFR process reaches its conclusion.

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2. General Discussion of Business Operations (cont'd)

c) Financing

On May 15, 2023, the Company issued 4,500,000 shares and 4,500,000 warrants which are exercisable at \$0.40 until May 15, 2024. Proceeds to the Company were \$900,000.

On June 1, 2023, the Company granted 250,000 share purchase options to an advisor. The options will be exercisable until July 31, 2025, at \$0.20 per share.

On June 26, 2023, the Company granted 300,000 share purchase options to a service provider and advisor. The options will be exercisable until July 31, 2025, at \$0.35 per share.

3. Overall Performance

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

4. Financial Condition, Financial Performance and Cash Flows

At the close of business on August 31, 2023, the Company had cash on hand of \$251,762 (2022 - \$34,567) and a working capital deficiency of \$1,629,487 (2022 - \$2,389,489). The Company will continue to evaluate its funding requirements on an ongoing basis in an effort to meet its current and future development and growth initiatives.

The agreement, as described in 2(b) above, waives the March 31, 2023, payment and extends the Payout Option to September 30, 2023. The due date for payout was further extended to April 15, 2024 in October 10, 2023 and October 15, 2023 amendments which are discussed in section 4(b) below.

The Company may not be able to raise the U.S.\$2,500,000 payable pursuant to the North Bay Agreement. If the April 15, 2024, payment is not made, North Bay would take control of CIWM.

In September, 2023 the Company engaged Haywood Securities Inc. ("Haywood") to undertake a brokered offering of units in the range of C\$4,000,000 to C\$5,000,000 at a price of \$0.20 for one share and one share purchase warrant which is exercisable at \$0.40 until October 2025. Since that time the Company has secured an amended agreement whereby the deadline for making the payout amount would be extended until April 15, 2024. A further extension to November 15, 2024 is also included in the amended agreement. In order to secure this extension the Company agreed to the following:

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4. Financial Condition, Financial Performance and Cash Flows (cont'd)

- a) U.S. \$500,000 will be settled by the issuance by the Company to North Bay of 3,335,000 Units – which will be at a deemed value of US\$0.15 or C\$0.20 per Unit – total C\$667,000.
Each Unit will consist of one fully paid voting common share in the capital of the Company and a share purchase warrant – each warrant being exercisable until October 30, 2025, to purchase 1 fully paid voting common share of the Company for C\$0.40.
- b) The U.S.\$2,150,000 Buy-Out payment date is extended and will be payable April 15, 2024. The Company will have an option to extend the repayment until November 15, 2024, under the same terms and price of the shares at that time.
- c) Interest will accrue at 10 percent per annum on the total principal and accrued interest outstanding of approximately U.S.\$6,000,000 from the date of this agreement and will be paid in addition to the remaining settlement amount of U.S.\$2,150,000 under the Buy-Out option.
- d) The company will also pay to North Bay a fee for the extension of the Buy-Out Option payment date, equal to 25% of the net proceeds of the next financing done by the Company.

Once the agreement was amended, management decided that the offering amount could be reduced to C\$1,500,000 in order to reduce the dilution of shares issued. The remaining funding needs could be raised through the exercise of warrants or an additional financing in the future.

The Company is in the process of closing the offering in the amount of C\$1,500,000 with net proceeds to the Company of C\$1,268,467. The Company will use the 25% of the net proceeds of the offering to pay the extension fee agreed to in the amended agreement.

Management believes that the needs of central California for waste disposal and treatment facilities will continue to grow as disposal capacity is strained and the value of our project in that environment is continuing to increase. Management believes that this trend will support the ongoing approval of, and ultimately the construction of, the Cortina Project.

The Company cannot guarantee it will be successful in continuing to raise funds to finance operations going forward however is confident it will continue to do so as it has demonstrated in the past. As discussed above, the Company is currently concluding arrangements to meet its obligations under the payout option and working capital requirements for the next year.

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4. Financial Condition, Financial Performance and Cash Flows (cont’d)

Since the majority of the Company’s assets are in the United States, currency fluctuations can change the value of the assets significantly. Financing is raised in Canadian dollars and consequently currency risk as to the amounts needed in Canadian funds is significant.

Summary of Share Capital at the date of this report are as follows:

Outstanding shares	98,810,832
Options outstanding	6,400,000 @ \$0.16 (weighted average)
Warrants outstanding	10,318,900 @ \$0.35 (weighted average)

5. Major Operating Milestones

Over the current fiscal year to date the Company has not only been able to negotiate a successful amendment to its agreement with its largest creditor, North Bay Corporation, but also exercised its option to exercise its payout option to significantly reduce its liability once the option payment is made by April 15, 2024.

The Company has been successful in financing and continuing to facilitate re-mobilization with respect to the Cortina Project and completed a re-design of the final cover for the landfill to meet the preference requested by KERA. SCS Engineers also updated all technical requirements related to the Basis of Design to include additional costs for closure costs and monitoring. The design is complete as issued for construction.

Management is evaluating all of its options on the Cortina asset development and how it can best serve the region and industry at this time. That is why we are moving forward to deliver as ready and technically current a project as possible.

Management has completed a cash flow model that has been reviewed by SCS which has been working on the landfill project for many years. Their conclusion states “The pro forma model developed for the proposed landfill construction and operations appears to be well structured and considers the major fixed and variable operational costs, projected revenues, and capital costs associated with developing, closing and maintaining the site during the post- closure care period.”

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5. Major Operating Milestones (cont'd)

The Company has now disclosed via a news release dated July 20, 2023, which was reviewed and approved by IROC, that the cash flow indicates that:

- The calculations, which cover a period of 25 years, have resulted in a projected revenue stream that steadily builds over time until the capacity of the project is exhausted. The Company has used the net present value of this cash flow stream to determine the current value of the asset. The key assumptions in making the calculation are as follows (USD). Average tipping fee of \$98 per ton (adjusting for inflation), daily tonnage of 920 and 1,500 per day, 70% of total cost financed with debt, 10% equity and 20% via sinking fund financed through operation. Variable operating costs have been deducted from anticipated revenue to arrive at projected net revenue. Estimated peak outstanding debt required for construction \$23 million, the amount of new equity required will be \$10 million, and inflation is assumed to average 2% over the forecast period
- The after-tax annual cash flow rises steadily from U.S. \$13.5 million in the first full year to over U.S. \$30 million in 25 years.
- Net present value is calculated as U.S. \$158 million (discounted at 7%) and U.S. \$202 million (discounted at 5%)

Detailed fact-based assumptions covering capacity and source types have been applied to the calculation schedules along with taxes and interest estimates. Anticipated timing of construction and corresponding revenue generation and expansion have also been calculated in detail. The assumptions at this time are based primarily on landfill tipping fees and therefore represent the minimum revenue that could be earned. Additional revenue from recycling, power generation, contaminated soil, and compost sales, which are permitted, will come on-line as operations proceed. The revenues in this cash flow model do not include anticipated capacity increases.

The Company has undertaken to have its shares registered for trading in the U.S. The U.S. Financial Industry Regulatory Authority – FINRA - has accepted our filing. However, we have not completed the Depository Trust Company eligibility process, which requires a legal opinion on previous issuances of shares in the U.S.

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6. Commitments, Unexpected Events or Uncertainties

- (a) The ability of the Company to become a viable provider of waste management services is dependent upon many factors including the obtaining of required permits and the necessary obtaining of required financing and successfully negotiating contracts with waste stream providers.
- (b) The Company has no history of profitable operations as its only project - the Cortina Project - is at the development stage. The Company is subject to many risks common to comparable companies including under-capitalization, limitations with respect to personnel, financial and other resources as well as limited revenues, and potential environmental problems at the Cortina Project site.
- (c) The Company is very dependent upon the personal efforts and commitments of its existing management. To the extent that the management's services could become unavailable for any reason, a disruption to the operations of the Company could result and other persons would be required to manage and operate the Company.
- (d) The Company has received a Notice letter dated March 1, 2019, from the U.S. Bureau of Indian Affairs ("BIA") advising that the Lease of the Cortina Lands held by CIWM from the Kletsel Dehe Wintun Nation ("Tribe") at the Cortina Rancheria in Colusa County, California, has been terminated. The Lease covers the site of CIWM's proposed integrated waste management project.

The allegations that purportedly justify this termination are, in the opinion of Company Management, as unfounded as those which were offered by the BIA and the Tribe in support of their previous failed attempt to terminate the Lease. Those allegations were rejected by the Interior Board of Indian Appeals in its 2015 decision, which expressly found that "the lease and administrative records do not support the Regional Director's grounds for cancellation". The Company believes this latest BIA action similarly lacks merit and will also be reversed. The Company has filed an Appeal. Filing this Appeal automatically suspended the purported termination of the Lease, which as a matter of law remains in good standing, pending disposition of the Appeal.

In spite of the new purported termination of the Lease, the Company continues to move forward with processing of its SSFR application to the U.S. EPA and all other productive development efforts.

Notwithstanding the above comments, it must be acknowledged that there is a risk the Company will not win its Appeal and the Lease may be cancelled.

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6. Commitments, Unexpected Events or Uncertainties (cont'd)

- (e) The outbreak of a new strain of corona virus, specifically identified as "COVID 19", has resulted in governments worldwide enacting emergency measures 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. 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 of their financial results on the 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.
- (f) The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February, 2022. While the Company expects any direct impacts, of the pandemic and the war in the Ukraine, to the business to be limited, the indirect impacts on the economy and industries in general could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

7. Significant Changes from Previous Financing Use of Proceeds Disclosures

There have been no significant changes in the use of proceeds from previous financing.

8. Transactions with Related Parties

There were no significant transactions with related parties other than the typical ones relating to interest accrued, exercise of options and provision of services. These are disclosed in Note 10 of the Condensed Consolidated Interim Financial Statements.