UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **August 31, 2019**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: **000-55546**

CLS HOLDINGS USA, INC.
(Exact name of registrant as specified in its charter)

Nevada	**45-1352286**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11767 South Dixie Highway, Suite 115, Miami, Florida 33156
(Address of principal executive offices) (Zip Code)

(888) 438-9132
Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check One):

Large Accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
(Do not check if a smaller reporting company)	
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 126,421,414 shares of $0.0001 par value common stock outstanding as of October 14, 2019.

CLS HOLDINGS USA, INC.

FORM 10-Q
Quarterly Period Ended August 31, 2019

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EXPLANATORY NOTE

Unless otherwise noted, references in this registration statement to “CLS Holdings USA, Inc.,” the “Company,” “we,” “our” or “us” means CLS Holdings USA, Inc. and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to anticipated future events, future results of operations or future financial performance. These forward-looking statements include, but are not limited to, statements relating to our ability to finance our planned operations and proposed acquisitions, market acceptance of our services and product offerings, our ability to commence and complete expansion plans and buildouts on schedule and on budget, and our ability to protect and commercialize our intellectual property. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “intends,” “expects,” “plans,” “goals,” “projects,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology.

These forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties and other factors which may cause our (or our industry’s) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

We cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these forward-looking statements, which speak only as of the date that they were made. These cautionary statements should be considered together with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, we do not intend to update any of the forward-looking statements to conform these statements to reflect actual results, later events or circumstances or to reflect the occurrence of unanticipated events.

AVAILABLE INFORMATION

We file certain reports under the Securities Exchange Act of 1934 (the “Exchange Act”). Such filings include annual and quarterly reports. The reports we file with the SEC are available on the SEC’s website (http://www.sec.gov).

Item 1. Financial Statements.

CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	August 31, 2019	May 31, 2019
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,907,899	$ 10,525,791
Accounts Receivable	229,932	163,571
Inventory	774,114	746,833
Prepaid expenses and other current assets	293,137	390,413
Notes receivable - current portion	1,275,411	850,958
Total current assets	8,480,493	12,677,566
Investment	-	2,709
Note receivable	4,049,589	4,299,042
Interest receivable	260,427	178,258
Property, plant and equipment, net of accumulated depreciation of $601,713 and $546,408	2,914,385	1,910,301
Right of use assets, operating leases	746,599	-
Intangible assets, net of accumulated amortization of $148,589 and $116,476	1,492,974	1,525,087
Goodwill	25,742,899	25,742,899
Other assets	167,455	167,455
Total assets	$ 43,854,821	$ 46,503,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,042,818	$ 1,517,127
Accrued interest	537,716	474,800
Notes payable, net of discount of $14,163 and $67,384	1,347,053	3,932,616
Lease liability - operating leases, current	437,808	-
Contingent liability	1,000,000	1,000,000
Total current liabilities	4,365,395	6,924,543
Noncurrent liabilities		
Lease liability - operating leases, non-current	450,337	-
Convertible notes payable - Long Term, net of discount of $3,423,940 and $3,819,010	15,281,456	14,541,220
Total Liabilities	20,097,188	21,465,763
Commitments and contingencies	-	-
Stockholder's equity		
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Common stock, $0.0001 par value; 750,000,000 shares authorized at August 31, 2019 and May 31, 2019; 126,421,414 and 125,839,095 shares issued and outstanding at August 31, 2019 and May 31, 2019, respectively	12,643	12,585
Additional paid-in capital	71,174,324	70,758,025
Common stock subscribed	135,317	455,095
Accumulated deficit	(47,564,651)	(46,188,151)
Total stockholder's equity (deficit)	23,757,633	25,037,554
Total liabilities and stockholders' equity (deficit)	$ 43,854,821	$ 46,503,317

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended August 31, 2019	For the Three Months Ended August 31, 2018
Revenue	$ 2,859,015	$ 1,179,353
Cost of goods sold	1,411,572	759,944
Gross margin	1,447,443	419,409
Selling, general and administrative expenses	2,298,314	15,392,130
Total operating expenses	2,298,314	15,392,130
Operating loss	(850,871)	(14,972,721)
Other (income) expense:		
Interest expense, net	800,629	1,684,219
Gain on settlement of liabilities	(275,000)	-
Total other expense	525,629	1,684,219
Income (Loss) before income taxes	(1,376,500)	(16,656,940)
Income tax expense	-	-
Net income (loss)	$ (1,376,500)	$ (16,656,940)
Net income (loss) per share - basic	$ (0.01)	$ (0.23)
Net income (loss) per share - diluted	$ (0.01)	$ (0.23)
Weighted average shares outstanding - basic	126,101,325	71,296,485
Weighted average shares outstanding - diluted	126,101,325	71,296,485

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid In	Stock	Accumulated	
	Amount	Value	Capital	Payable	Deficit	Total
Balance - May 31, 2018	50,128,972	$ 5,013	$ 17,628,717	$ 307,584	$ (18,569,094)	$ (627,780)
Common stock issued for conversion of debt	2,095,029	209	654,488	-	-	654,697
Common stock issuance with Oasis acquisition	22,058,823	2,206	15,438,970	-	-	15,441,176
Common stock issued to consultant	700,000	70	489,930	-	-	490,000
Common stock issued to officer	600,000	60	263,940	(213,321)	-	50,679
Common stock to be issued to officer	-	-	-	69,459		69,459
Common stock and warrants issued for cash	14,375,000	1,438	5,748,562	-	-	5,750,000
Special Warrants issued for cash	-	-	9,785,978	-	-	9,785,978
Cashless exercise of warrant	129,412	13	(13)	-	-	-
Warrant issued due to penalty	-	-	941,972	-	-	941,972
Warrants issued as compensation for offering	-	-	1,495,373	-	-	1,495,373
Warrants issued to placement agent	-	-	1,413,300	-	-	1,413,300
Special warrant issued due to penalty	-	-	7,142,550	-	-	7,142,550
Foreign currency transaction loss on equity offering	-	-	403,588	-	-	403,588
Discount on notes from beneficial conversion feature	-	-	1,229,831	-	-	1,229,831
Reclass derivative upon adoption of ASU 2017-11	-	-	1,265,751	-	-	1,265,751
Imputed interest	-	-	271	-	-	271
Derivative valuation of reset event	-	-	35,883	-	-	35,883
Net loss - 3 months ended August 31, 2018	-	-	-	-	(16,656,940)	(16,656,940)
Balance - August 31, 2018 (unaudited)	90,087,236	$ 9,009	$ 63,939,091	$ 163,722	$ (35,226,034)	$ 28,885,788
Balance - May 31, 2019	125,839,095	$ 12,585	$ 70,758,025	$ 455,095	$ (46,188,151)	$ 25,037,554
Common stock issued to officers	550,000	55	390,445	(390,500)	-	-
Conversion of notes payable	32,319	3	25,854	-	-	25,857
Vesting of Common stock to be issued to officers	-	-	-	63,222	-	63,222
Common stock to be issued to consultants	-	-	-	7,500	-	7,500
Net loss - 3 months ended August 31, 2019	-	-	-	-	(1,376,500)	(1,376,500)
Balance - August 31, 2019 (unaudited)	126,421,414	$ 12,643	$ 71,174,324	$ 135,317	$ (47,564,651)	$ 23,757,633

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CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended August 31, 2019	For the Three Months Ended August 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,376,500)	$ (16,656,940)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on contingent liabilities	(275,000)	
Imputed interest	-	271
Stock-based compensation	63,222	120,138
Fair value of shares issued to consultants	7,500	490,000
Warrants issued to placement agent	-	2,908,673
Amortization of debt discounts	448,291	1,598,501
Warrants and Special Warrants issued due to penalty	-	8,084,522
Non-cash offering costs of equity financing	-	403,588
Depreciation and amortization expense	87,418	48,461
Expense from derivative triggering event	-	12,659
Changes in assets and liabilities:		
Accounts receivable	(66,361)	(24,544)
Prepaid expenses and other current assets	(36,205)	(151,709)
Inventory	(27,281)	(93,446)
Interest receivable	(82,169)	-
Right of use asset	1,034,847	-
Accounts payable and accrued expenses	(267,861)	(548,738)
Accrued compensation	-	(15,424)
Accrued interest, related party	-	3,497
Deferred rent	-	667
Accrued interest	433,937	59,437
Due to related parties	-	(50,000)
Operating lease liability	(893,301)	-
Net cash used in operating activities	(949,463)	(3,810,387)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to purchase property, plant and equipment	(923,199)	-
Loan made to borrower under note receivable	(175,000)	-
Payment for investment in Alternative Solutions, net of cash received of $14,612	-	(5,982,710)
Net cash used in investing activities	(1,098,199)	(5,982,710)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party convertible notes payable	-	81,961
Proceeds from convertible notes payable	-	500,000
Principal payments on notes payable	-	(310,000)
Principal payments on related party notes payable	-	(76,381)
Principal payments on convertible notes payable	-	(37,500)
Principal payments on notes payable	(2,570,230)	-
Proceeds from sale of equity	-	15,535,978
Net cash provided by financing activities	(2,570,230)	15,694,058
Net (decrease) increase in cash and cash equivalents	(4,617,892)	5,900,961
Cash and cash equivalents at beginning of period	10,525,791	52,964
Cash and cash equivalents at end of period	$ 5,907,899	$ 5,953,925
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 242	$ 8,964
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Related party notes payable reclassified as related party convertible notes payable	$ -	$ 75,000
Beneficial conversion feature on convertible notes	$ -	$ 1,229,831
Note payable exchanged for common stock	$ -	$ 654,697
Charge to paid-in capital for par value of shares issued in cashless exercise of warrants	$ -	$ 13
Reclassify derivative liability to paid-in capital upon adoption of ASU 2017-11	$ -	$ 1,265,751
Adoption of lease standard ASU 2016-02	$ 1,781,446	$ -
Capitalized interest on convertible debentures	$ 371,021	$ -
Reclassification of deposit to fixed assets	$ 136,190	$ -
Shares issued for conversion of notes payable	$ 25,857	$ -

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2019
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

Basis of Presentation

These financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States and are expressed in US dollars. The Company has adopted a fiscal year end of May 31st.

Principals of Consolidation

The accompanying consolidated financial statements include the accounts of CLS Holdings USA, Inc., and its wholly owned operating subsidiaries, CLS Nevada, Inc., ("CLS Nevada"), CLS Labs, Inc. ("CLS Labs"), CLS Labs Colorado, Inc. ("CLS Colorado"), CLS Massachusetts, Inc. ("CLS Massachusetts"), and Alternative Solutions, LLC ("Alternative Solutions"). Alternative Solutions is the sole owner of the following three entities (collectively, the "Oasis LLCs"): Serenity Wellness Center, LLC ("Serenity Wellness Center"); Serenity Wellness Products, LLC ("Serenity Wellness Products"); and Serenity Wellness Growers, LLC ("Serenity Wellness Growers"). All material intercompany transactions have been eliminated upon consolidation of these entities.

Nature of Business

CLS Holdings USA, Inc. (the "Company") was originally incorporated as Adelt Design, Inc. ("Adelt") on March 31, 2011 to manufacture and market carpet binding art. Production and marketing of carpet binding art never commenced.

On November 12, 2014, CLS Labs, Inc. ("CLS Labs") acquired 10,000,000 shares, or 55.6%, of the outstanding shares of common stock of Adelt from its founder, Larry Adelt. On that date, Jeffrey Binder, the Chairman, President and Chief Executive Officer of CLS Labs, was appointed Chairman, President and Chief Executive Officer of the Company. On November 20, 2014, Adelt adopted amended and restated articles of incorporation, thereby changing its name to CLS Holdings USA, Inc. Effective December 10, 2014, the Company effected a reverse stock split of its issued and outstanding common stock at a ratio of 1-for-0.625 (the "Reverse Split"), wherein 0.625 shares of the Company's common stock were issued in exchange for each share of common stock issued and outstanding. As a result, 6,250,000 shares of the Company's common stock were issued to CLS Labs in exchange for the 10,000,000 shares that it owned by virtue of the above-referenced purchase from Larry Adelt.

On April 29, 2015, the Company, CLS Labs and CLS Merger Inc., a Nevada corporation and wholly owned subsidiary of CLS Holdings ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") and completed a merger, whereby CLS Merger Inc. merged with and into CLS Labs, with CLS Labs remaining as the surviving entity (the "Merger"). Upon the consummation of the Merger, the shares of the common stock of CLS Holdings owned by CLS Labs were extinguished and the former stockholders of CLS Labs were issued an aggregate of 15,000,000 (post Reverse Split) shares of common stock in CLS Holdings in exchange for their shares of common stock in CLS Labs. As a result of the Merger, the Company acquired the business of CLS Labs and abandoned its previous business.

The Company has been issued a U.S. patent with respect to its proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. These concentrates may be ingested in a number of ways, including through vaporization via electronic cigarettes ("e-cigarettes"), and used for a variety of pharmaceutical and other purposes. Internal testing of this extraction method and conversion process has revealed that it produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace. The Company has not commercialized its patented proprietary process or otherwise earned any revenues from it. The Company plans to generate revenues through licensing, fee-for-service and joint venture arrangements related to its patented proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

On December 4, 2017, the Company and Alternative Solutions, entered into a Membership Interest Purchase Agreement (the "Acquisition Agreement"), as amended, for the Company to acquire the Oasis LLCs from Alternative Solutions. Pursuant to the Acquisition Agreement, the Company initially contemplated acquiring all of the membership interests in the Oasis LLCs from Alternative Solutions. Just prior to closing, the parties agreed that the Company would instead acquire all of the membership interests in Alternative Solutions, the parent of the Oasis LLCs, from its members, and the membership interests in the Oasis LLCs owned by members other than Alternative Solutions.

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (the "Oasis Note"), and 22,058,823 shares of its common stock (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because the Company assumed an additional $204,457 of liabilities. The Company used the proceeds of a Canadian private securities offering to fund the cash portion of the Closing Consideration. The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018.

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc., a Massachusetts corporation ("IGH"), entered into an Option Agreement (the "IGH Option Agreement"). Under the terms of the IGH Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that is 60 days after such date. If CLS Massachusetts exercises the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH will enter into a merger agreement (the form of which has been agreed to by the parties) (the "IGH Merger Agreement"). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts will pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted common stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement have entered into agreements pursuant to which such stockholders have, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH, in the principal amount of $5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan is evidenced by a secured promissory note of IGH, which bears interest at the rate of 6% per annum and matures on October 31, 2021. To secure the obligations of IGH to the Company under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH. If the Company does not exercise the Option on or prior to the date that is 30 days following the end of the option period, the loan amount will be reduced to $2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay closing until January 2020.

On January 29, 2019, the Company made a line of credit loan to CannAssist, LLC ("CannAssist"), in the principal amount of up to $500,000, subject to the terms and conditions set forth in that certain Loan Agreement, dated as of January 29, 2019 between CannAssist as the Borrower and the Company as the Lender (the "CannAssist Loan Agreement"). Any draws on the line of credit in excess of $150,000 will only be made in the sole discretion of the Company. The loan is evidenced by a secured promissory note of CannAssist (the "CannAssist Note"), which bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. To secure the obligations of CannAssist to the Company under the CannAssist Loan Agreement and the CannAssist Note, the Company and CannAssist entered into a Security Agreement dated as of January 29, 2019, pursuant to which CannAssist granted to the Company a first priority lien on and security interest in all personal property of CannAssist.

On March 11, 2019, the Company, through its wholly-owned subsidiary, CLS Massachusetts, entered into a membership interest purchase agreement (the "CannAssist Purchase Agreement") with CannAssist, each of the members of CannAssist, and David Noble, as the members' representative, to acquire an 80% ownership interest in CannAssist. After conducting diligence, the parties decided to terminate the CannAssist Purchase Agreement effective August 26, 2019. The CannAssist Note will be due and payable in full on or before February 28, 2020. See note 15.

On August 26, 2019, the Company and CannAssist entered into an agreement to amend the CannAssist Note. Pursuant to the amendment, there will be no additional advances under the CannAssist Note beyond the $150,000 advanced on February 4, 2019, and the $175,000 advanced on June 24, 2019. In addition, the CannAssist Note shall become due and payable in full on or before February 28, 2020. Finally, the Company and CannAssist terminated the CannAssist Purchase Agreement. At August 31, 2019, the Company was owed principal in the amount of $325,000 and accrued interest in the amount of $10,564 pursuant to the CannAssist Note.

On January 4, 2018, the Attorney General of the United States issued new written guidance concerning the enforcement of federal laws relating to marijuana. The Attorney General's memorandum stated that previous DOJ guidance specific to marijuana enforcement, including the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, the "Cole Memo") is unnecessary and is rescinded, effective immediately. The Cole Memo told federal prosecutors that in states that had legalized marijuana, they should use their prosecutorial discretion to focus not on businesses that comply with state regulations, but on illicit enterprises that create harms like selling drugs to children, operating with criminal gangs, and selling across state lines. While the rescission did not change federal law, as the Cole Memo and other DOJ guidance documents were not themselves laws, the rescission removed the DOJ's formal policy that state-regulated cannabis businesses in compliance with the Cole Memo guidelines should not be a prosecutorial priority. Notably, former Attorney General Sessions' rescission of the Cole Memo has not affected the status of the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") memorandum issued by the Department of Treasury, which remains in effect. This memorandum outlines Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis businesses, which echoed the enforcement priorities outlined in the Cole Memo. In addition to his rescission of the Cole Memo, Attorney General Sessions issued a one-page memorandum known as the "Sessions Memorandum". The Sessions Memorandum explains the DOJ's rationale for rescinding all past DOJ cannabis enforcement guidance, claiming that Obama-era enforcement policies are "unnecessary" due to existing general enforcement guidance adopted in the 1980s, in chapter 9.27.230 of the USAM. The USAM enforcement priorities, like those of the Cole Memo, are based on the use of the federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community." Although the Sessions Memorandum emphasizes that cannabis is a federally illegal Schedule I controlled substance, it does not otherwise instruct U.S. Attorneys to consider the prosecution of cannabis-related offenses a DOJ priority, and in practice, most U.S. Attorneys have not changed their prosecutorial approach to date. However, due to the lack of specific direction in the Sessions Memorandum as to the priority federal prosecutors should ascribe to such cannabis activities, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Company had cash and cash equivalents of $5,907,899 and $10,525,791 as of August 31, 2019 and May 31, 2019, respectively.

Allowance for Doubtful Accounts

The Company generates the majority of its revenues and corresponding accounts receivable from the sale of cannabis, and cannabis related products. The Company evaluates the collectability of its accounts receivable considering a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations to it, the Company records a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount it reasonably believe will be collected. For all other customers, the Company recognizes reserves for bad debts based on past write-off experience and the length of time the receivables are past due. During the three months ended August 31, 2019 and 2018, the Company reserved the amount of $0 for uncollectible accounts receivable.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using a perpetual inventory system whereby costs are determined by acquisition costs of individual items included in inventory. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable values. Our cannabis products consist of prepackaged purchased goods ready for resale, along with produced edibles and extracts developed under our production license.

Property, Plant and Equipment

Property and equipment is recorded at the lower of cost or estimated net recoverable amount, and is depreciated using the straight-line method over its estimated useful life. Property acquired in a business combination is recorded at estimated initial fair value. Property, plant, and equipment are depreciated using the straight-line method based on the lesser of the estimated useful lives of the assets or the lease term based upon the following life expectancy:

	Years
Office equipment	3 to 5
Furniture & fixtures	3 to 7
Machinery & equipment	3 to 10
Leasehold improvements	Term of lease

Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles including goodwill for impairment on an annual basis utilizing the guidance set forth in the Statement of Financial Accounting Standards Board ASC 350 "Intangibles – Goodwill and Other" and ASC 360 "Property, Plant, and Equipment". Based on Step 1 of ASC 350 and ASC 360, there were no impairments to the Company's long-lived assets as of August 31, 2019. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Comprehensive Income

ASC 220-10-15 "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10-15 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any items of comprehensive income in any of the periods presented.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts and other accounts, the balances of which at times may be uninsured or exceed federally insured limits. From time to time, some of the Company's funds are also held by escrow agents; these funds may not be federally insured. The Company continually monitors its banking relationships and consequently has not experienced any losses in such accounts.

Advertising and Marketing Costs

All costs associated with advertising and promoting products are expensed as incurred. Total recognized advertising and marketing expenses were $205,978 and $0 for the three months ended August 31, 2019 and 2018, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred no research and development costs for the three months ended August 31, 2019 and 2018, respectively.

Fair Value of Financial Instruments

Pursuant to Accounting Standards Codification ("ASC") No. 825 -*Financial Instruments*, the Company is required to estimate the fair value of all financial instruments included on its balance sheets. The carrying amounts of the Company's cash and cash equivalents, notes receivable, convertible notes payable, accounts payable and accrued expenses, none of which is held for trading, approximate their estimated fair values due to the short-term maturities of those financial instruments.

A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Significant unobservable inputs that cannot be corroborated by market data.

Derivative Financial Instruments

Derivatives are recorded on the condensed consolidated balance sheets at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheets with changes in fair value recognized during each period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company uses for determining the fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income (see note 18).

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to equity in the aggregate amount of $1,265,751.

There were no reset provision triggered during and derivative liabilities were not revalued during the three months ended August 31, 2019.

During the three months ended August 31, 2018, a reset event occurred in connection with one of the Company's convertible notes (see note 15). The following assumptions were used for the valuation of the derivative liability related to the convertible notes that contain a derivative component during the three months ended August 31, 2018:

- That the quoted market price of the common stock, which increased from $0.6865 as of June 1, 2018 to $0.710 as of June 20, 2018 would fluctuate with the Company's projected volatility;

- That the conversion price of the YAN II PN Convertible Notes would be equal to $0.40 with a full reset feature, and upon default, 75% of the lowest Variable Weighted Average Price ("VWAP") in the 15 consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date.

- That the new convertible notes issued this period with full resets were issued with conversion prices of $0.40, which were not reset as a result of subsequent transactions.

- That an event of default at 24% or 15% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 25%, and that instead of a penalty, there would be an alternative conversion price;

- That the projected volatility curve from an annualized analysis for each valuation period would be based on the historical volatility of the Company and the remaining term for ach convertible note. The projected volatility was in the range 97.4% to 242.8% during the quarter ended August 31, 2018.

- That the Company would redeem the convertible notes, projected initially at 0% of the time and increasing monthly by 1.0% to a maximum of 10.0% (from alternative financing);

- That the holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the common stock underlying certain 2017 convertible notes was eligible for sale in compliance with securities laws and the Company was not in default;

- That unless an Event of Default occurred, the holder would sell, per trading day, an amount of common stock up to the greater of (i) $5,000 or (ii) 25% multiplied by the "Aggregate Amount," as defined in the YA II PN Convertible Notes.

Revenue Recognition

Revenue is primarily generated through the Company's subsidiary, Serenity Wellness Center LLC, d/b/a Oasis Cannabis ("Oasis"). Oasis operates a 24-hour cannabis dispensary that recognizes revenue from the sale of medical and recreational cannabis products within the State of Nevada.

Revenue from the sale of cannabis products is recognized by Oasis at the point of sale, at which time payment is received. Management estimates an allowance for sales returns.

The Company also recognizes revenue from Serenity Wellness Products LLC and Serenity Wellness Growers LLC, d/b/a City Trees ("City Trees"). City Trees recognizes revenue from the sale of the following cannabis products and services to licensed dispensaries within the State of Nevada:

- Premium organic medical cannabis sold wholesale to licensed retailers
- Recreational marijuana cannabis products sold wholesale to distributors and retailers
- Extraction products such as oils and waxes derived from in-house cannabis production
- Processing and extraction services for licensed medical cannabis cultivators in Nevada
- High quality cannabis strains in the form of vegetative cuttings for sale to licensed medical cannabis cultivators in Nevada

Effective June 1, 2018, the Company adopted ASC 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to each performance obligation in the contract; and (5) recognizing revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of the service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured.

There was no impact on the Company's financial statements as a result of adopting Topic 606 for the three months ended August 31, 2019 or 2018.

Disaggregation of Revenue

The following table represents a disaggregation of revenue for the three months ended August 31, 2019 and 2018:

	2019	2018
Cannabis Dispensary	$ 2,085,900	$ 776,708
Cannabis Production	773,115	402,645
	$ 2,859,015	$ 1,179,353

Basic and Diluted Earnings or Loss Per Share

Basic net earnings per share is based on the weighted average number of shares outstanding during the period, while fully diluted net earnings per share is based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of options and warrants to purchase common stock, and convertible debt. Basic and diluted net loss per share are computed based on the weighted average number of shares of common stock outstanding during the period. At August 31, 2019 and 2018, the Company excluded from the calculation of fully diluted shares outstanding the following shares because the result would have been anti-dilutive: At August 31, 2019, a total of 86,452,881 shares (54,835,145 issuable upon the exercise of warrants; 7,676,974 issuable upon the exercise of unit warrants; 23,704,094 issuable upon the conversion of convertible notes payable and accrued interest; and 236,668 in stock payable; at August 31, 2018, a total of 87,162,289 shares (21,139,000 issuable upon the exercise of warrants; 4,635,684 issuable upon the exercise of unit warrants; 57,946,038 issuable upon the exercise of special warrants; 3,245,858 issuable upon the conversion of notes payable and accrued interest; and 195,709 in stock payable).

The Company uses the treasury stock method to calculate the impact of outstanding stock options and warrants. Stock options and warrants for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on earnings per common share and, accordingly, are excluded from the calculation.

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the three months ended August 31, 2019 and 2018.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC 740. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The components of the deferred tax assets and liabilities are classified as current and non-current based on their characteristics. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Commitments and Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims brought to such legal counsel's attention as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Codification ("ASC") No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at the lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. The Company has performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. The Company adopted the ASU and related amendments on June 1, 2019 and has elected certain practical expedients permitted under the transition guidance. The Company has elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Under the new guidance, the majority of the Company's leases continue to be classified as operating. During the first quarter of fiscal 2020, the Company completed its implementation of its processes and policies to support the new lease accounting and reporting requirements. During the first quarter of fiscal 2020, the Company completed its implementation of its processes and policies to support the new lease accounting and reporting requirements. This resulted in an initial increase in both its total assets and total liabilities in the amount of $1,781,446.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, current U.S. GAAP requires the performance of procedures to determine the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the amendments under this ASU require the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU becomes effective for the Company on January 1, 2020. The amendments in this ASU will be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230).* The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Adoption of ASU 2016-15 did not have a material effect on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU became effective for the Company on January 1, 2018, and will be applied to an award modified on or after the adoption date. Adoption of ASU 2017-09 did not have a material effect on the Company's financial statements.

Effective June 1, 2018, the Company adopted ASC 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of a service has been rendered to a customer or delivery has occurred; (3) the amount of the fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on the Company's financial statements as a result of adopting ASC 606.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.

When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the codification, to a scope exception.

Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to equity in the aggregate amount of $1,265,751.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Note 2 – Going Concern

As shown in the accompanying financial statements, the Company has incurred net losses from operations resulting in an accumulated deficit of $47,564,651 as of August 31, 2019. The Company's auditors stated in their opinion on the Company's financial statements for the year ended May 31, 2019 that there was substantial doubt about the Company's ability to continue as a going concern, and that further losses were anticipated in the development of the Company's business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company began generating revenue from operations with the acquisition of Alternative Solutions on June 27, 2018 (note 3). Management intends to finance operating costs over the next twelve months with revenues from operations, and if necessary, loans and/or the proceeds from the sale of securities. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Note 3 – Acquisition of Alternative Solutions

On June 27, 2018, the Company closed on the purchase of all of the membership interests in Alternative Solutions and its three operating subsidiaries (collectively, the "Oasis LLCs") from the members of such entities (other than Alternative Solutions). The Oasis LLCs operate a fully integrated cannabis business in Las Vegas, Nevada, including a grow; extraction, conversion and processing facility; and a retail dispensary. The closing occurred pursuant to a Membership Interest Purchase Agreement (the "Acquisition Agreement") entered into between the Company and Alternative Solutions on December 4, 2017, as amended. Pursuant to the Acquisition Agreement, the Company initially contemplated acquiring all of the membership interests in the Oasis LLCs from Alternative Solutions. Just prior to closing, the parties agreed that the Company would instead acquire all of the membership interests in Alternative Solutions, the parent of the Oasis LLCs, from its members, and the membership interests in the Oasis LLCs owned by members other than Alternative Solutions. The revised structure of the transaction is referenced in the Oasis Note, which modified the Acquisition Agreement.

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (see note 15), (the "Oasis Note"), and 22,058,823 shares of its common stock (see note 17), (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because the Company assumed an additional $204,457 of liabilities. The Company used the proceeds of a Canadian private securities offering to fund the cash portion of the Closing Consideration (see note 17). The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018. On August 14, 2019, the Company made a prepayment in the amount of $2,500,000, which, along with certain legal fees and other costs in the aggregate amount of $138,784, was applied to the amount due under the $4.0 million promissory note.

The number of Purchase Price Shares was equal to 80% of the offering price of the Company's common stock in its last equity offering, which price was $0.34 per share. The Oasis Note is secured by a first priority security interest over the membership interests in Alternative Solutions and the Oasis LLCs, as well as by the assets of the Oasis LLCs. The Company also delivered a confession of judgment to a representative of the sellers that will become effective, in general, if the Company defaults under the Oasis Note.

A claim was been made that Oasis owed certain amounts to a consultant at the acquisition date; Oasis disputed this claim. This claim was accrued on the Company's balance sheet as of May 31, 2019, and was resolved during the three months ended August 31, 2019 (see note 16).

The sellers are also entitled to a $1,000,000 payment from the Company on May 30, 2020 if the Oasis LLCs have maintained an average revenue of $20,000 per day during the 2019 calendar year. The fair value of this contingent consideration was $678,111 at the acquisition date as determined by the Company's outside valuation consultants. At May 31, 2019, the Company increased the value of this contingent consideration to $1,000,000, and charged the amount of $321,889 to operations during the year ended May 31, 2019. This amount is recorded as a contingent liability on the Company's balance sheet at August 31, 2019 and May 31, 2019.

The acquisition date estimated fair value of the consideration transferred totaled $27,975,650, which consisted of the following:

Initial purchase price	$	2,050,000
Cash paid in connection with transaction		5,995,543
Note payable		3,810,820
Contingent consideration		678,111
Common stock		15,441,176
Total purchase price	$	27,975,650
Net tangible assets	$	595,151
Intangible assets		1,637,600
Goodwill		25,742,899
Total purchase price	$	27,975,650

The above estimated fair value of the intangible assets is based on a preliminary purchase price allocation prepared by a third party valuation expert. During the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. After the preliminary purchase price allocation period, the Company may record adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in its operating results in the period in which the adjustments were determined.

Pro forma results

The following table sets forth the unaudited pro forma results of the Company as if the acquisition of the Oasis LLCs was effective on June 1, 2018.

		Three Months Ended August 31, 2018
		(unaudited)
Revenues	$	1,665,744
Net loss	$	(12,016,196)
Basic net loss per share	$	(0.18)
Diluted net loss per share	$	(0.18)
Weighted average shares - basic		67,913,333
Weighted average shares - diluted		67,913,333

These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

Note 4 – Joint Venture and Options Transaction

In Good Health

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc. ("IGH"), a Massachusetts not-for-profit corporation, which converted to a for-profit corporation on November 6, 2018 (the "Conversion"), entered into an Option Agreement (the "IGH Option Agreement"). Under the terms of the Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the Conversion and December 1, 2019, and ending on the date that is 60 days after such date (the "Option Period"). If CLS Massachusetts exercises the Option, the Company, a wholly-owned subsidiary of the Company and IGH will enter into a merger agreement (the form of which has been agreed to by the parties) (the "IGH Merger Agreement"). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts will pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted common stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note.

IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement have entered into agreements pursuant to which such stockholders have, among other things, agreed to vote in favor of such transactions.

On October 31, 2018, as consideration for the Option, the Company made a loan to IGH (the "IGH Loan"), in the principal amount of $5,000,000 (the "IGH Loan Amount"), subject to the terms and conditions set forth in that certain Loan Agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender (the "IGH Loan Agreement") (see note 8). The IGH Loan is evidenced by a secured promissory note of IGH (the "IGH Note"), which bears interest at the rate of 6% per annum and matures on October 31, 2021. The Company recorded interest income in the amount of $75,616 on the IGH Loan during the three months ended August 31, 2019.

To secure the obligations of IGH to the Company under the IGH Loan Agreement and the IGH Note, the Company and IGH entered into a Security Agreement dated as of October 31, 2018 (the "IGH Security Agreement"), pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH.

If the Company does not exercise the IGH Option on or prior to the date that is 30 days following the end of the Option Period, the IGH Loan Amount will be reduced to $2,500,000 as a break-up fee (the "Break-Up Fee"), except in the event of a Purchase Exception (as defined in the IGH Option Agreement), in which case the Break-Up Fee will not apply and there will be no reduction to the Loan Amount.

On August 26, 2019, the parties amended the IGH Option to, among other things, extend the Option Period and delay closing until January 2020.

CannAssist

On January 29, 2019, the Company made a line of credit loan to CannAssist in the principal amount of up to $500,000, subject to the terms and conditions set forth in the CannAssist Loan Agreement. Any draws on the line of credit in excess of $150,000 will only be made in the sole discretion of the Company. The loan is evidenced by the CannAssist Note, which bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. On June 24, 2019, the Company advanced the sum of $175,000 to CannAssist, increasing the balance due to the Company under the CannAssist Note to $325,000 at August 31, 2019. The Company recorded interest income in the amount of $6,553 on the loan during the three months ended August 31, 2019.

To secure the obligations of CannAssist to the Company under the CannAssist Loan Agreement and the CannAssist Note, the Company and CannAssist entered into a Security Agreement dated as of January 29, 2019, pursuant to which CannAssist granted to the Company a first priority lien on and security interest in all personal property of CannAssist.

On March 11, 2019, the Company, through its wholly-owned subsidiary, CLS Massachusetts, entered into the CannAssist Purchase Agreement with CannAssist, each of the members of CannAssist, and David Noble, as the members' representative.

On August 26, 2019, and Company and CannAssist entered into an agreement to amend the CannAssist Note. Pursuant to the amendment, there will be no additional advances under the CannAssist Note beyond the $150,000 advanced on February 4, 2019, and the $175,000 advanced on June 24, 2019. In addition, the CannAssist Note shall become due and payable in full on or before February 28, 2020. Finally, the Company and CannAssist terminated the CannAssist Purchase Agreement.

Note 5 – Accounts Receivable

Accounts receivable was $229,932 and $163,571 at August 31, 2019 and May 31, 2019, respectively. No allowance for doubtful accounts was necessary during the three months ended August 31, 2019 and 2018.

Note 6 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	August 31, 2019	May 31, 2019
Deposits	$ 75,303	211,493
Prepaid expenses	217,834	178,920
Total	$ 293,137	$ 390,413

During the three months ended August 31, 2019, the Company charged the amount of $101,512 as a reserve against a receivable from a payment card company in connection with the processing of its payment card sales. Also during the three months ended August 31, 2019, the Company applied deposits in the amount of $136,190 to the acquisition of fixed assets. See note 9.

Note 7 – Inventory

Inventory, consisting of material, overhead, labor, and manufacturing overhead, is stated at the lower of cost (first-in, first-out) or market, and consists of the following:

	August 31, 2019	May 31, 2019
Raw materials	$ 258,302	$ 323,635
Finished goods	515,812	423,198
Total	$ 774,114	$ 746,833

Raw materials consist of cannabis plants and the materials that are used in our production process prior to being tested and packaged for consumption. Finished goods consist of pre-packaged materials previously purchased from other licensed cultivators and the Company's manufactured edibles and extracts.

Note 8 – Notes Receivable

PRH Note Receivable

During the year ended May 31, 2015, the Company loaned $500,000 pursuant to a promissory note (the "PRH Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"). Pursuant to the PRH Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016, and May 31, 2016, PRH was expected to repay the principal due under the PRH Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing in the month following the month in which PRH commenced generating revenue at the grow facility, which commencement was originally anticipated to occur in the first quarter of 2017, and continuing until paid in full. The Company suspended its plans to operate in Colorado due to regulatory delays and has not yet determined when it will pursue them again. Interest will accrue on the unpaid principal balance of the PRH Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing after such initial payment and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the PRH Note is due and payable on the five-year anniversary of the initial payment thereunder. In the event of default as defined in the agreements underlying the PRH Note, all amounts under the PRH Note shall be due and payable at once. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000.

During the year ended May 31, 2018, the Company received a payment of $50,000 on the PRH Note. As a result, the Company has reduced the impairment of the PRH Note by $50,000 to reflect this payment. The receivable is recorded on the balance sheet as of August 31, 2019 in the amount of $0, net of allowance in the amount of $450,000.

IGH Note Receivable

On October 31, 2018, in connection with an option to purchase transaction (see note 4), the Company loaned $5,000,000 pursuant to the IGH Note to IGH; on November 6, 2018, IGH converted to a for-profit corporation. The IGH Note bears interest at the rate of 6% per annum. On March 1, 2020 (the "Initial Payment Date"), all accrued interest shall be added to the outstanding principal due hereunder and such amount shall be payable in eight equal quarterly installments, commencing on the Initial Payment Date, together with interest accruing after the Initial Payment Date. The IGH Note shall mature and all outstanding principal, accrued interest and any other amounts due hereunder, shall become due and payable in full on the third anniversary of the IGH Note. The IGH Note was issued in connection with a loan agreement and security agreement between the Company and IGH, and the IGH Option Agreement between the Company and IGH, among others, in both cases dated as of October 31, 2018 and the other IGH Loan Documents, and is secured by the collateral described in the IGH Loan Documents and by such other collateral as may in the future be granted to the Company to secure the IGH Note. During the three months ended August 31, 2019, the Company recorded interest income in the amount of $75,616 in connection with the IGH Note. At August 31, 2019, principal in the amount of $950,411 and interest receivable in the amount of $260,427 due under the IGH Note were classified as current assets and principal in the amount of $4,049,589 was classified as non-current assets on the Company's balance sheet.

CannAssist Note Receivable

On January 29, 2019, the Company made a line of credit loan to CannAssist pursuant to the CannAssist Note, in the principal amount of up to $500,000. The loan bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. Payments on the loan were to commence on July 1, 2019 and the CannAssist Note was to mature on December 1, 2019. On August 26, 2019, and Company and CannAssist amended the CannAssist Note. Pursuant to the amendment, among other things, the CannAssist Note shall become due and payable in full on or before February 28, 2020. During the three months ended year ended August 31, 2019, the Company recorded interest income in the amount of $6,553 on the CannAssist Note. At August 31, 2019, the principal amount of $325,000 and interest receivable in the amount of $4,011 due under the CannAssist Note were classified as current assets on the Company's balance sheet.

Note 9 – Property, Plant and Equipment

Property, plant and equipment consisted of the following at August 31, 2019 and May 31, 2019.

	August 31, 2019	May 31, 2019
Office equipment	53,152	53,152
Furniture and fixtures	140,701	140,701
Machinery & Equipment	1,177,246	969,196
Leasehold improvements	$ 2,144,999	$ 1,293,660
Less: accumulated depreciation	(601,713)	(546,408)
Property, plant, and equipment, net	$ 2,914,385	$ 1,910,301

During the three months ended August 31, 2019 and 2018, the Company made payments in the amount of $923,199 and $0, respectively, for property, plant, and equipment. In addition, during the three months ended August 31, 2018, the Company acquired plant, property, and equipment in the amount of $933,142 with the acquisition of Alternative Solutions. See note 3. Also during the three months ended August 31, 2019, the Company applied $136,190 of deposits to the acquisition of fixed assets. See note 6.

Depreciation of property, plant, and equipment was $55,305 and $27,509 for the three months ended August 31, 2019 and 2018 respectively.

Note 10 – Right to Use Assets and Liabilities – Operating Leases

The Company has operating leases for offices and warehouses. The Company's leases have remaining lease terms of 1 year to 4 years, some of which include options to extend.

The Company's lease expense for the three months ended August 31, 2019 was entirely comprised of operating leases and amounted to $106,370. The Company's right of use ("ROU") asset amortization for the three months ended August 31, 2019 was $87,313. The difference between the lease expense and the associated ROU asset amortization consists of interest.

Right to use assets – operating leases are summarized below:

		August 31, 2019
Amount at inception of leases	$	1,781,446
Amount amortized		(1,034,847)
Balance - August 31, 2019	$	746,599

Operating lease liabilities are summarized below:

Amount at inception of leases	$	1,781,446
Amount amortized		(893,301)
Balance - August 31, 2019	$	888,145

		August 31, 2019
Warehouses and offices		888,145
Lease liability	$	888,145
Less: current portion		(437,808)
Lease liability, non-current	$	450,337

Maturity analysis under these lease agreements is as follows:

Twelve months ended August 31, 2020	$	493,321
Twelve months ended August 31, 2021		282,398
Twelve months ended August 31, 2022		111,242
Twelve months ended August 31, 2023		95,010
Twelve months ended August 31, 2024		-
Thereafter		-
Total	$	981,971
Less: Present value discount		(93,826)
Lease liability	$	888,145

Note 11 – Intangible Assets

Intangible assets consisted of the following at August 31, 2019 and May 31, 2019:

August 31, 2019		Gross		Accumulated Amortization		Net
Intellectual Property	$	319,600	$	(37,287)	$	282,313
License & Customer Relations		990,000		(57,750)		932,250
Tradenames - Trademarks		301,000		(35,117)		265,883
Non-compete Agreements		27,000		(15,754)		11,246
Domain Names		3,963		(2,681)		1,282
Total	$	1,641,563	$	(148,589)	$	1,492,974

May 31, 2019		Gross		Accumulated Amortization		Net
Intellectual Property	$	319,600	$	(29,297)	$	290,303
License & Customer Relations		990,000		(45,375)		944,624
Tradenames - Trademarks		301,000		(27,592)		273,408
Non-compete Agreements		27,000		(12,378)		14,622
Domain names		3,963		(1,834)		2,129
Total	$	1,641,563	$	(116,476)	$	1,525,087

Total amortization expense charged to operations for the three months ended August 31, 2019 and 2018 was $32,113 and $20,952, respectively.

Amount to be amortized during the twelve months ended August 31,

2020	$	164,156
2021		164,156
2022		164,156
2023		163,854
2024		161,506
Thereafter		675,146
	$	1,492,974

Note 12 – Goodwill

The Company recorded goodwill in the amount of $25,742,899 in connection with the acquisition of Alternative Solutions on June 27, 2018 (see note 3). Goodwill is tested for impairment on an annual basis utilizing the two-step process set forth in ASC 350 and ASC 360. The first step of this process compares the book value of the Company with its fair value. If the fair value exceeds its carrying amount (including recorded goodwill), no goodwill impairment has occurred. Since the fair value of the Company based upon the market price of the Company's common stock exceeded the carrying value (including goodwill) at August 31, 2019 and May 31, 2019, no indication of goodwill impairment existed.

Note 13 – Other Assets

Other assets consisted of the following at August 31, 2019 and May 31, 2019:

	August 31, 2019	May 31, 2019
Security deposits	167,455	167,455
	$ 167,455	$ 167,455

Note 14 – Accounts Payable and Accrued Liabilities

Accrued accounts payable and accrued liabilities consisted of the following at August 31, 2019 and May 31, 2019:

	August 31, 2019	May 31, 2019
Trade accounts payable	$ 509,674	$ 510,210
Accrued payroll and payroll taxes	176,179	230,119
Accrued liabilities	356,965	625,399
Deferred rent liability	-	151,399
Total	$ 1,042,818	$ 1,517,127

Note 15 – Notes Payable and Convertible Notes Payable

Notes Payable

		August 31, 2019		May 31, 2019
The Company issued a secured note payable to Serenity Wellness Enterprises, LLC, as nominee ("Oasis Note"). dated June 27, 2018 in the principal amount of $4,000,000 and bearing interest at a rate of 6% per annum pursuant to the Membership Interest Purchase Agreement with Alternative Solutions. The note is due on December 4, 2019, but may be prepaid at any time without penalty. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs. The Company recognized an original issue discount of $189,180 on the Oasis Note. During the three months ended August 31, 2019, $53,221 of this discount was charged to operations. On August 14, 2019, the Company made a prepayment in the amount of $2,500,000, which was applied to the amount due under the Oasis Note; in addition, principal due under the Oasis note was further reduced by $133,389 for legal fees and $5,395 for other costs incurred by the Company in connection with a settlement agreement (see note 16). During the three months ended August 31, 2019, the Company accrued interest in the amount of $54,297 on the Oasis Note.		1,361,216		4,000,000
Total – Notes Payable	$	1,361,216	$	4,000,000
Less: Discount		(14,163)		(67,384)
Notes Payable, Net of Discounts	$	1,347,053	$	3,932,616
Current portion	$	1,347,053	$	3,932,616
Long term portion	$	-	$	-

Related Party Convertible Demand Notes Payable

On May 31, 2017, the Company entered into an Omnibus Loan Amendment Agreement (the "Omnibus Loan Amendment") with Jeffrey I. Binder, Frank Koretsky, Newcan Investment Partners LLC and CLS CO 2016, LLC (collectively, the "Insiders"). Pursuant to the Omnibus Loan Amendment, the Company agreed with the Insiders to amend certain terms of loans the Insiders made to the Company for working capital purposes, which loans were initially demand loans, and, except for loans made in 2017, were later memorialized as convertible loans (the "Insider Loans"), in exchange for the agreement of the Insiders to convert all Insider Loans where funds were advanced prior to January 1, 2017, which totaled $2,537,750, plus $166,490 of accrued interest thereon, into an aggregate of 10,816,960 shares of the Company's common stock at $0.25 per share, and forego the issuance of warrants to purchase the Company's common stock upon conversion. This resulted in the issuance of an additional 7,609,910 shares compared to the original number of shares issuable upon conversion of the Insider Loans prior to the Omnibus Loan Amendment. The Company valued the shares at $0.125, which was the market price of the Company's stock at the conversion date, and charged the amount of $951,239 to loss on modification of debt during the year ended May 31, 2017. The Company entered into the Omnibus Loan Amendment in order to ease the debt burden on the Company and prevent it from defaulting on the Insider Loans.

Pursuant to the Omnibus Loan Amendment, the following amendments were made to the Insider Loans: (a) the Company reduced the conversion price on the Insider Loans from between $0.75 and $1.07 per share of common stock to $0.25 per share of common stock, in those cases where the conversion price was greater than $0.25, which reduced conversion price exceeded the closing price of the common stock during the three months prior to the Omnibus Loan Amendment; (b) the Company deleted the requirement to issue warrants to purchase the Company's common stock upon conversion of the Insider Loans; (c) the Company amended one Insider Loan to permit conversion of only the portion of the Insider Loan related to services that were provided to it prior to January 1, 2017; and (d) the Company amended the terms of the Insider Loans where funds were advanced on or after January 1, 2017, which Insider Loans were not converted into the Company's common stock, to provide for, where not already the case, a 10% interest rate per annum, a $0.25 conversion price per share of common stock, and the deletion of the requirement that the Company issue warrants to purchase its common stock upon conversion of such Insider Loans.

On January 10, 2018, effective December 1, 2017, the Company entered into an Omnibus Amendment to Convertible Notes (the "Second Omnibus Loan Agreement") with Jeffrey I. Binder, an officer and director of the Company, and Newcan Investment Partners LLC, an entity owned by Frank Koretsky, a director of the Company. The Second Omnibus Loan Agreement provides that the conversion price of all outstanding convertible promissory notes issued to either Mr. Binder or Newcan Investment Partners, LLC as of the date of the Agreement would be increased from $0.25 to $0.3125 per share of common stock. The remaining terms of such notes remain unchanged. There were no balances outstanding under the Insider Loans at August 31, 2019 or May 31, 2019.

Convertible Notes Payable

	August 31, 2019	**May 31, 2019**
Convertible debenture in the principal amount of $4,000,000 (the "U.S. Convertible Debenture 1") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 1. The U.S. Convertible Debenture 1 matures on a date that is three years following issuance. The U.S. Convertible Debenture 1 is convertible into units (the "Convertible Debenture Units") at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 1, the conversion price of Convertible Debenture 1 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 1 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 1 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 1 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $3,254,896 on the U.S. Convertible Debenture 1. During the three months ended August 31, 2019, $271,241 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $85,696 on the U.S. Convertible Debenture 1. Also during the three months ended August 31, 2019, the Company transferred the amount of $83,625 from accrued interest to principal of the U.S. Convertible Debenture 1.	4,218,931	4,135,306

	August 31, 2019	May 31, 2019
Convertible debenture in the principal amount of $1,000,000 (the "U.S. Convertible Debenture 2") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 2. The U.S. Convertible Debenture 2 matures on a date that is three years following issuance. The U.S. Convertible Debenture 2 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 2, the conversion price of Convertible Debenture 2 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 2 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 2 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 2 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $813,724 on the U.S. Convertible Debenture 2. During the three months ended August 31, 2019, $67,810 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $21,424 on the U.S. Convertible Debenture 2. Also during the three months ended August 31, 2019, the Company transferred the amount of $20,906 from accrued interest to principal of the U.S. Convertible Debenture 2.	1,054,733	1,033,827
Convertible debenture in the principal amount of $100,000 (the "U.S. Convertible Debenture 3") dated October 24, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 3. The U.S. Convertible Debenture 3 matures on a date that is three years following issuance. The U.S. Convertible Debenture 3 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 3 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 3, the conversion price of Convertible Debenture 3 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 3 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 3 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 3 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $75,415 on the U.S. Convertible Debenture 3. During the three months ended August 31, 2019, $6,285 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $2,146 on the U.S. Convertible Debenture 3. Also during the three months ended August 31, 2019, the Company transferred the amount of $2,094 from accrued interest to principal of the U.S. Convertible Debenture 3.	105,635	103,541

	August 31, 2019	May 31, 2019
Convertible debenture in the principal amount of $532,000 (the “U.S. Convertible Debenture 4”) dated October 25, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 4. The U.S. Convertible Debenture 4 matures on a date that is three years following issuance. The U.S. Convertible Debenture 4 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 4 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 4, the conversion price of Convertible Debenture 4 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 4 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 4 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 4 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $416,653 on the U.S. Convertible Debenture 4. During the three months ended August 31, 2019, $34,721 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $11,413 on the U.S. Convertible Debenture 4. Also during the three months ended August 31, 2019, the Company transferred the amount of $11,137 from accrued interest to principal of the U.S. Convertible Debenture 4.	561,856	550,719
Convertible debenture in the principal amount of $150,000 (the “U.S. Convertible Debenture 5”) dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 5. The U.S. Convertible Debenture 5 matures on a date that is three years following issuance. The U.S. Convertible Debenture 5 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 5 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 5 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $120,100 on the U.S. Convertible Debenture 5. During the three months ended August 31, 2019, $10,008 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $3,217 on the U.S. Convertible Debenture 5. Also during the three months ended August 31, 2019, the Company transferred the amount of $3,139 from accrued interest to principal of the U.S. Convertible Debenture 5.	158,383	155,244

	August 31, 2019	May 31, 2019
Convertible debenture payable in the principal amount of $75,000 (the “U.S. Convertible Debenture 6”) dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 6. The U.S. Convertible Debenture 6 matures on a date that is three years following issuance. The U.S. Convertible Debenture 6 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 6 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 6 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $60,049 on the U.S. Convertible Debenture 6. During the three months ended August 31, 2019, $5,004 of this discount was charged to operations. During the three months ended August 31, 2019, the Company accrued interest in the amount of $1,609 on the U.S. Convertible Debenture 6. Also during the three months ended August 31, 2019, the Company transferred the amount of $1,570 from accrued interest to principal of the U.S. Convertible Debenture 6.	79,192	77,622
Convertible debentures payable in the aggregate principal amount of $12,012,000 (the “Canaccord Debentures”) dated December 12, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the Canaccord Debentures. The Canaccord Debentures mature on a date that is three years following issuance. The Canaccord Debentures are convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The Canaccord Debentures have other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The Canaccord Debentures are unsecured obligations of the Company and rank *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. During the three months ended August 31, 2019, in two separate transactions, principal in the aggregate amount of $25,857 was converted into an aggregate 32,321 shares of the Company’s common stock, and warrants to purchase 16,160 shares of common stock were issued. There were no gains or losses recorded on these conversions because they were done in accordance with the terms of the original agreement. No discount was recorded for the fair value of the warrants issued. Because the market price of the Company’s common stock was less than the conversion price on the date of issuance of the Canaccord Debentures, a discount was not recorded on the Canaccord Debentures. During the three months ended August 31, 2019, the Company accrued interest in the amount of $254,753 on the Canaccord Debentures. Also during the three months ended August 31, 2019, the Company transferred the amount of $248,550 from accrued interest to principal of the Canaccord Debentures.	12,526,666	12,303,971

	August 31, 2019	May 31, 2019
Total - Convertible Notes Payable	$ 18,705,396	$ 18,360,230
Less: Discount	(3,423,940)	(3,819,010)
Convertible Notes Payable, Net of Discounts	$ 15,281,456	$ 14,541,220
Total - Convertible Notes Payable, Net of Discounts, Current Portion	$ -	$ -
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	$ 15,281,456	$ 14,541,220
Discounts on notes payable amortized to interest expense – 3 months ended August 31, 2019 and 2018, respectively	$ 448,291	$ 818,254

Aggregate maturities of notes payable and convertible notes payable as of August 31, 2019 are as follows:

For the twelve months ended August 31,

2020	$ 1,361,216
2021	-
2022	18,705,396
2023	-
2024	-
Thereafter	-
Total	$ 20,066,612

Beneficial Conversion Features

Certain of the Company's convertible notes contained conversion features that create derivative liabilities. The pricing model the Company uses for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative components of the notes were valued at issuance, at conversion, at restructure, and at each period end.

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to equity in the aggregate amount of $1,265,751. See note 1.

Certain of the Company's other convertible notes payable contain beneficial conversion features that are not derivatives, but which require valuation in order to determine the discount to the related convertible note payable. The value of these conversion features is calculated using the intrinsic value method, whereby the amount of the discount is calculated as the difference between the conversion price and the market price of the underlying common stock at the date of issuance multiplied by the number of shares issuable.

Note 16 – Contingent Liability

The terms of the Company's acquisition of Alternative Solutions, include a payment of $1,000,000 contingent upon the Oasis LLCs achieving certain revenue targets. (see note 3). The fair value of this contingent consideration at the time of the Acquisition Agreement was $678,111 as determined by the Company's outside valuation consultants. Management has reviewed the value of the contingent consideration, and has concluded that, due to the increased revenue of Alternative Solutions, the fair value of this contingent liability was $1,000,000 at August 31 and May 31, 2019. The Company recorded a charge to operations in the amount of $321,889 during the year ended May 31, 2019.

Note 17 – Stockholders' Equity

The Company's authorized capital stock consists of 750,000,000 shares of common stock, par value \$0.0001, at August 31, 2019 and May 31, 2019, and 20,000,000 shares of preferred stock, par value \$0.001 per share. The Company had 126,421,414 and 125,839,095 shares of common stock issued and outstanding as of August 31, 2019 and May 31, 2019, respectively.

<u>Three months ended August 31, 2019</u>

Common Stock and Warrants Issued upon Conversion of Notes Payable:

On July 8, 2019, the Company issued 16,644 shares of common stock and three-year warrants to acquire 8,322 shares of common stock at a price of \$1.10 per share to Canaccord Genuity Corp., as nominee, in connection with the conversion of a portion of the Canaccord Debentures in the principal amount of \$13,315. No gain or loss was recorded on this transaction because the conversion was made pursuant to the terms of the original agreement.

On July 19, 2019, the Company issued 15,677 shares of common stock and three-year warrants to acquire 7,838 shares of common stock at a price of \$1.10 per share to Canaccord Genuity Corp., as nominee, in connection with the conversion of a portion of the Canaccord Debentures in the principal in the amount of \$12,542. No gain or loss was recorded on this transaction because the conversion was made pursuant to the terms of the original agreement.

Common Stock Issued and To Be Issued to Officers and Service Providers:

On July 22, 2019, the Company issued 500,000 shares of common stock to Ben Sillitoe, Chief Executive Officer of CLS Nevada, in connection with his employment agreement. The fair value of these shares in the amount of \$355,000 had been charged to operations as the shares vested. At issuance, this amount was transferred from common stock subscribed; \$50 was charged to common stock, and \$354,950 was charged to additional paid-in capital

On July 22, 2019, the Company issued 50,000 shares of common stock to Don Decatur, Chief Operating Officer of CLS Nevada, in connection with his employment agreement. The fair value of these shares in the amount of \$35,500 had been charged to operations as the shares vested. At issuance, this amount was transferred from common stock subscribed; \$5 was charged to common stock, and \$35,495 was charged to additional paid-in capital.

During the three months ended August 31, 2019, the Company charged an aggregate of \$63,222 to common stock subscribed representing the accrual over the vesting period of 449,366 shares of restricted common stock issuable to officers.

The Company also charged the amount of \$7,500 to common stock subscribed representing the fair value of 33,333 shares of common stock to be issued to a service provider.

<u>Three months ended August 31, 2018</u>

Stock Issued upon Conversion of Notes Payable:

During the three months ended August 31, 2018, Darling Capital, LLC holder of a convertible promissory note, converted a total of \$565,000, which consisted of \$550,000 of principal and \$15,000 of accrued interest, into 1,808,000 shares of common stock.

During the three months ended August 31, 2018, Efrat Investments, LLC holder of a convertible promissory note, converted a total of \$57,200, which consisted of \$55,000 of principal and \$2,200 of accrued interest, into 183,040 shares of common stock.

During the three months ended August 31, 2018, David Lamadrid, holder of a convertible promissory note, converted a total of \$32,497, which consisted of \$31,250 of principal and \$1,247 of accrued interest, into 103,989 shares of common stock.

Stock Issued and To Be Issued to Officers and Service Providers:

On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, a director and executive officer of the Company, a cash payment in the amount of $250,000 and 700,000 shares of the Company's restricted common stock in recognition of Mr. Glashow's efforts, through Star Associates, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions. The shares were valued at $490,000 and were charged to operations during the three months ended August 31, 2018.

On June 24, 2018, pursuant to the terms of a severance agreement between the Company and David Lamadrid, the Company issued 600,000 shares of restricted common stock to Mr. Lamadrid. These shares were valued at $264,000, $213,320 of which was previously expensed and the remaining $50,680 of which was charged to operations during the three months ended August 31, 2018. At issuance, $213,320 was transferred from common stock subscribed; $60 was charged to common stock, and $263,940 was charged to additional paid-in capital.

During the three months ended August 31, 2018, the Company charged an aggregate of $69,459 to common stock subscribed, representing the accrual over the vesting period of 408,000 shares of restricted common stock issuable to officers.

Stock Issued for Acquisition:

On June 27, 2018, the Company issued 22,058,823 shares of its common stock pursuant to the terms of the Alternative Solutions, LLC Acquisition Agreement. These shares were valued at $15,441,176. (See note 3).

Special Warrants Issued in Offering:

On June 20, 2018, the Company executed an Agency Agreement with Canaccord Genuity Corp. and closed on a private offering of its special warrants for aggregate gross proceeds of C$13,037,859 (USD$9,785,978). Pursuant to the offering, the Company issued 28,973,020 special warrants at a price of C$0.45 (USA$0.34) per special warrant. Each special warrant was automatically exercisable, for no additional consideration, into units of the Company on the earlier of: (i) the date that was five business days following the date on which the Company obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of the Company's acquisition of all of the membership interests in Alternative Solutions, LLC, known as Oasis Cannabis. The Company allocated $4,226,394 of the proceeds from the sale of the special warrants to the underlying stock, and $5,559,584 of the value to the underlying warrants. The value of the warrants underlying the special warrants was determined utilizing the Black-Scholes valuation model. The Company recorded a loss on currency conversion in the amount of $403,588 in connection with the special warrants during the three months ended August 31, 2018.

In connection with the offering, the Company paid Canaccord Genuity Corp. a cash commission equal to C$1,043,028 (USD$799,053), a corporate finance fee equal to 1,448,651 special warrants, and 2,317,842 compensation broker warrants valued at $1,495,373. Each compensation broker warrant entitles the holder thereof to acquire one unit at a price of C$0.45 per unit for a period of 36 months from the date that the Company's common stock is listed on a recognized Canadian stock exchange, subject to adjustment in certain events. The 1,448,651 special units that were issued were valued at $1,413,300 and were charged to operations during the three months ended August 31, 2018.

Upon exercise of the special warrants, each unit was to consist of one share of the Company's common stock and one warrant to purchase one share of common stock. Each warrant was to be exercisable at a price of C$0.65 for three years after the Company's common stock was listed on a recognized Canadian stock exchange, subject to adjustment in certain events.

Because the Company did not receive a receipt from the applicable Canadian securities authorities for the qualifying prospectus by August 20, 2018, the unexercised special warrants were adjusted to entitle the holders to receive 1.1 units instead of one unit of the Company. This resulted in the issuance of an additional 3,042,167 units. This penalty was valued at $7,142,550 and was charged to operations during the three months ended August 31, 2018.

Stock Issued in Navy Capital Offering:

On July 31, 2018, the Company entered into a Subscription Agreement with Navy Capital Green International, Ltd, (the "Navy Capital Offering") for 7,500,000 units at a price of $0.40 per unit, or an aggregate amount of $3,000,000. The units collectively represent (i) 7,500,000 shares of common stock, and (ii) three-year warrants to purchase an aggregate of 7,500,000 shares of common stock at an exercise price of $0.60 per share of common stock.

In connection with the Navy Capital Offering, between August 8, 2018 and August 10, 2018, the Company entered into five subscription agreements for a total of 6,875,000 units at a price of $0.40 per unit, or an aggregate purchase price of $2,750,000. The units collectively represent (i) 6,875,000 shares of common stock, and (ii) three-year warrants to purchase an aggregate of 6,875,000 shares of common stock at an exercise price of $0.60 per share of common stock.

Stock Issued to Officers:

On July 31, 2018, the Company granted the Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which fully vested one year from the effective date of his employment agreement. These shares were valued at $355,000 and were amortized over the vesting period. As of August 31, 2019 , $355,500 had been charged to operations. The shares were issued on July 22, 2019.

On July 31, 2018, the Company granted the Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which fully vested one year from the effective date of his employment agreement. These shares were valued at $35,500 and were amortized over the vesting period. As of August 31, 2019, $35,500 had been charged to operations. The shares were issued on July 22, 2019.

Effective August 1, 2018, the Company granted 25,000 shares of restricted common stock to its Chief Financial Officer. These shares vested four months after issuance. The shares were valued at $17,500, and were amortized over the vesting period. On April 1, 2019, these shares were issued.

Stock Issued upon Cashless Exercise of Warrants:

On August 14, 2018, the Company issued 129,412 shares of common stock for the cashless conversion of 350,000 warrants at an exercise price of $0.75 per share.

Additional Paid-in Capital

Three months ended August 31, 2019

No activity other than changes to additional paid-in capital related to the issuance of common stock disclosed above.

Three months ended August 31, 2018

During the three months ended August 31, 2018, the Company recorded discounts on two convertible notes payable relating to beneficial conversion features in the aggregate amount of $362,500 on the YA II PN Note 2; and $58,594 on the Newcan Convertible Note 8. Also during the three months ended August 31, 2018, a reset event occurred with regard to the YAII PN Note.

During the three months ended August 31, 2018, the Company recorded an original issue discount on the Serenity Wellness Note in the amount of $81,961.

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in the previously issued convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to additional paid-in capital in the aggregate amount of $1,265,751. On June 20, 2018, a reset event occurred in connection with the YA II PN Note (see note 15), and the Company charged the change in fair value of the conversion feature in the amount of $35,833 to additional paid-in capital. This was considered a material modification of the note, and the Company created a new discount to this note in the amount of $750,000, which was charged to additional paid-in capital.

Warrants

The following table summarizes the significant terms of warrants outstanding at August 31, 2019. This table does not include the unit warrants. See Unit Warrants section below.

Range of exercise Prices		Number of warrants Outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price of outstanding Warrants	Number of warrants Exercisable		Weighted average exercise price of exercisable Warrants
$	0.49	33,465,110	2.25	$	0.49	33,465,110	$	0.49
	0.50	2,736,500	2.48		0.50	2,736,500		0.50
	0.60	17,500,000	2.25		0.60	17,500,000		0.60
	0.75	837,500	1.47		0.75	837,500		0.75
	1.10	296,035	2.32		1.10	296,035		1.10
		54,835,145	2.50	$	0.53	54,835,145	$	0.53

Transactions involving warrants are summarized as follows. This table does not include the special warrants or unit warrants. See Special Warrants and Unit Warrants sections below.

	Number of Shares		Weighted Average Exercise Price
Warrants outstanding at May 31, 2018	4,497,750	$	0.61
Granted	50,738,235	$	0.53
Exercised	(415,000)	$	0.75
Cancelled / Expired	-	$	-
Warrants outstanding at May 31, 2019	54,818,985	$	0.53
Granted	16,160	$	1.10
Exercised	-	$	-
Cancelled / Expired	-	$	-
Warrants outstanding at August 31, 2019	54,835,145	$	0.53

Unit Warrants

On June 20, 2018, in connection with the special warrant offering, the Company issued Canaccord Genuity Corp. 2,317,842 three-year broker warrants at an exercise price of C$0.45 per unit as compensation. Each warrant entitles the holder to purchase one unit, which consists of one share of common stock and a warrant to purchase one share of common stock, for C$0.65 per share. These warrants were valued at $1,495,373, and this amount was charged to operations during the three months ended August 31, 2018.

On December 12, 2018, in connection with the issuance of the Canaccord Debentures, the Company issued Canaccord Genuity Corp., as compensation, 1,074,720 three-year agent and advisory warrants. Each warrant entitles the holder to purchase a unit for $0.80, which unit consists of one share of common stock and a warrant to purchase one-half share of common stock at an exercise price of $1.10 per share. The Company, in connection with the issuance of the Canaccord Debentures, also issued to National Bank Financial Inc., as compensation, 268,680 three-year agent and advisory warrants. Each warrant entitles the holder to purchase a unit for $0.80, which unit consists of one share of common stock and a warrant to purchase one-half share of common stock at an exercise price of $1.10 per share. The aggregate value of these warrants was $874,457, which was charged to operations during the year ended May 31, 2019.

Special Warrants

On June 20, 2018, the Company sold 28,973,019 special warrants for net proceeds of US$9,785,978. Each special warrant was automatically exercisable, for no additional consideration, into units of the Company on the earlier of: (i) the date that was five business days following the date on which the Company obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of the Company's acquisition of all of the membership interests in Alternative Solutions, known as Oasis Cannabis, which was June 28, 2018.

All of the special warrants were automatically exercised for units on November 30, 2018. Each unit consists of one share of the Company's common stock and one three-year warrant to purchase one share of common stock at a price of C$0.65.

Note 18 – Gain on Settlement of Liabilities

On August 14, 2019, the Company made a payment to 4Front Advisors to settle its dispute with Alternative Solutions and its former owners and the Oasis Note was reduced in accordance with its terms. In addition, the amount of $275,000, which the Company had accrued with respect to this dispute, was extinguished resulting in a gain of $275,000.

Note 19 – Fair Value of Financial Instruments

The Company has issued convertible notes containing beneficial conversion features. One of the features is a ratchet reset provision which, in general, reduces the conversion price should the Company issue equity with an effective price per share that is lower than the stated conversion price in the note. The Company accounts for the fair value of the conversion feature in accordance with ASC 815- Accounting for Derivatives and Hedging and Emerging Issues Task Force ("EITF") 07-05- Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-05"). The Company carries the embedded derivative on its balance sheet at fair value and accounts for any unrealized change in fair value as a component of its results of operations. The Company also has a contingent liability in connection with the acquisition of Alternative Solutions, (see note 16).

The following summarizes the Company's financial liabilities that are recorded at fair value on a recurring basis at August 31, 2019 and May 31, 2019:

	August 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

	May 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

Note 20 – Related Party Transactions

On July 22, 2019, the Company issued 500,000 shares of common stock to Ben Sillitoe, Chief Executive Officer of CLS Nevada, in connection with his employment agreement.

On July 22, 2019, the Company issued 50,000 shares of common stock to Don Decatur, Chief Operating Officer of CLS Nevada, in connection with his employment agreement.

As of May 31 2019 and 2018, the Company had accrued salary due to Michael Abrams, a former officer of the Company prior to his September 1, 2015 termination, in the amount of $16,250.

Note 21 – Commitments and Contingencies

Leased Facility

In connection with the Company's planned Colorado operations, on April 17, 2015, pursuant to an Industrial Lease Agreement (the "Lease"), CLS Labs Colorado leased 14,392 square feet of warehouse and office space (the "Leased Real Property") in a building in Denver, Colorado where certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, are permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. The Lease had an initial term of seventy-two (72) months and provided CLS Labs Colorado with two options to extend the term of the lease by up to an aggregate of ten (10) additional years. In August 2017, as a result of the Company's decision to suspend its proposed operations in Colorado, CLS Labs Colorado asked its landlord to be relieved from its obligations under the Lease, but the parties have not yet reached an agreement on how to proceed.

In August 2017, the Company's Colorado subsidiary received a demand letter from its Colorado landlord requesting the forfeiture of the $50,000 security deposit, $10,000 in expenses, $15,699 in remaining rent due under the lease agreement and $30,000 to buy out the remaining amounts due under the lease. These expenses, which are a liability of the Company's Colorado subsidiary, have been accrued on the balance sheet as of August 31, 2019.

Contingent Liability

At the time of closing of the Acquisition Agreement, Alternative Solutions owed certain amounts to a consultant known as 4Front Advisors, which amount was in dispute. In August 2019, we made a payment to this company to settle this dispute and the Oasis Note was reduced accordingly.

Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. On April 28, 2015, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the merger of CLS Labs and a subsidiary of the Company, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of $150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. On July 20, 2016, March 31, 2017, August 23, 2017, October 9, 2017, January 5, 2018 and April 6, 2018, the Company issued Mr. Binder convertible notes in exchange for $250,000, $112,500, $62,500, $39,521, $37,500 and $37,500 respectively, in deferred salary, among other amounts owed to Mr. Binder by the Company. As of August 31, 2019 and 2018, the Company had accrued compensation due to Mr. Binder in the amount of $0. In October 2019, Mr. Binder's employment agreement was amended; see note 22.

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett was entitled to receive an annual salary of $150,000. Further, he was entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, valued at $327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of Picture Rock Holdings, LLC ("PRH"), was expected to indirectly receive the benefits of the Colorado operations discussed above. Mr. Bonsett agreed to defer his salary effective July 1, 2017; at August 31, 2019, the Company had accrued compensation due to Mr. Bonsett in the amount of $37,500. On October 1, 2017, the Company and Mr. Bonsett, the Company's Chief Operating Officer, mutually agreed to end his employment with the Company. Mr. Bonsett may provide consulting services to the Company in the future on an as needed basis.

Effective November 30, 2017, the Company and Mr. Lamadrid entered into a one-year employment agreement. Pursuant to the agreement, Mr. Lamadrid commenced serving as the Company's President and Chief Financial Officer on December 1, 2017. Under the agreement, Mr. Lamadrid was entitled to receive an annual salary of $175,000. Further, he was entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, and annual restricted stock awards of the Company's common stock in an amount equal to 3% of its annual EBITDA. Additionally, Mr. Lamadrid was entitled to a one-time signing bonus of 500,000 shares of restricted common stock of the Company, which were to become fully vested one year from the effective date of the agreement. On July 24, 2018, the Company and Mr. Lamadrid mutually agreed to terminate the employment agreement. Mr. Lamadrid resigned as President and Chief Financial Officer effective as of July 13, 2018. In connection with a severance agreement between the Company and Mr. Lamadrid, the Company paid certain amounts and issued 600,000 shares of common stock to Mr. Lamadrid, and the parties further agreed that neither party would have any further obligations under the Employment Agreement or otherwise after such date.

On July 31, 2018, the Company and Mr. Sillitoe entered into a one-year employment agreement. Pursuant to the agreement, Mr. Sillitoe commenced serving as the Chief Executive Officer of CLS Nevada, Inc. effective July 1, 2018. Under the agreement, Mr. Sillitoe is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company's common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Sillitoe is entitled to a one-time signing bonus of 500,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Sillitoe remains employed by the Company on such date. On July 31, 2019, CLS Nevada, Inc. and Mr. Sillitoe amended Mr. Sillitoe's employment agreement to effect the original intention of the parties that the performance bonus would be based on the results of Alternative Solutions and not CLS Nevada, Inc.

The Company and Mr. Decatur entered into a one-year employment agreement effective July 31, 2018. Pursuant to the agreement, Mr. Decatur commenced serving as the Chief Operating Officer of CLS Nevada, Inc. on July 1, 2018. Under the agreement, Mr. Decatur is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company' common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Decatur is entitled to a one-time signing bonus of 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Decatur remains employed by the Company on such date. On May 14, 2019, CLS Nevada and Mr. Decatur entered into an amendment to his employment agreement to extend the term of Mr. Decatur's employment agreement by two years instead of relying on the automatic one-year renewal provision in the employment agreement. On July 31, 2019, CLS Nevada, Inc. and Mr. Decatur amended Mr. Decatur's employment agreement to effect the original intention of the parties that the performance bonus would be based on the results of Alternative Solutions and not CLS Nevada, Inc.

On March 1, 2019, the Company and Mr. Glashow entered into a two-year employment agreement and Mr. Glashow commenced serving as the Company's President and Chief Operating Officer. Under the agreement, Mr. Glashow is entitled to receive an annual salary of $175,000. Further, he is entitled to receive a performance bonus equal to 1% of the Company's annual EBITDA, and annual restricted stock awards in an amount equal to 1% of the Company's annual EBITDA. Additionally, Mr. Glashow is entitled to a one-time signing bonus of 500,000 shares of the Company's restricted common stock, half of which shall vest on March 1, 2020, and half of which shall vest on March 1, 2021. Effective March 1, 2019, and in connection with the employment agreement, Mr. Glashow and the Company entered into a Confidentiality, Non-Compete and Proprietary Rights Agreement. Pursuant thereto, Mr. Glashow agreed (i) not to compete with us during the term of his employment and for a period of one year thereafter, (ii) not to release or disclose our confidential information, and (iii) to assign the rights to all work product to us, among other terms. In October 2019, Mr. Glashow's employment agreement was amended; see note 22.

On May 2, 2019, the Company and Gregg Carlson entered into a one-year employment agreement. Pursuant to the employment agreement, Mr. Carlson commenced serving as the Company's Chief financial Officer on May 1, 2019 and will continue his employment with us pursuant to the terms of his one-year employment agreement with Alternative Solutions effective April 8, 2019. Mr. Carlson receives an annual salary of $110,000, and received a one-time signing bonus of 50,000 shares of restricted common stock of the Company, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Carlson remains employed by the Company on such date.

At May 31, 2019 and 2018, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

Note 22 – Subsequent Events

Employment Agreements

On October 14, 2019 but effective October 1, 2019, CLS Labs, Inc., the Company, and Jeffrey Binder entered into an amendment to Mr. Binder's employment agreement to provide that the Company would assume all obligations of CLS Labs under the employment agreement. The amendment also extends the term of Mr. Binder's employment agreement by three years instead of relying on the automatic one-year renewal provision in the employment agreement, and increases Mr. Binder's annual base salary to $200,000. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Binder resigns or is terminated in connection with a change in control of the Company. In connection with the amendment, the parties also amended and restated that certain Confidentiality, Non-Compete and Property Rights Agreement entered into by and between RJF Labs, Inc. (now CLS Labs), and Mr. Binder effective as of July 16, 2014.

On October 14, 2019 but effective October 1, 2019, the Company and Andrew Glashow entered into an amendment to his employment agreement to extend the term of Mr. Glashow's employment agreement by one year instead of relying on the automatic one-year renewal provision in the employment agreement, and to increase Mr. Glashow's annual base salary to $200,000. The amendment also provides that in addition to his base salary, Mr. Glashow is entitled to receive, on an annual basis, a performance-based bonus equal to two percent (2%) of the Company's annual EBITDA up to a maximum annual cash compensation of $1 million including base salary, and annual stock options, exercisable at the fair market value of the Company's common stock on the effective date of grant, in an amount equal to 2% of the Company's EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Glashow resigns or is terminated in connection with a change in control of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HISTORY AND OUTLOOK

We were incorporated on March 31, 2011 as Adelt Design, Inc. to manufacture and market carpet binding art. Production and marketing of carpet binding art never commenced. On November 20, 2014, we adopted amended and restated articles of incorporation, thereby changing our name to CLS Holdings USA, Inc. Effective December 10, 2014, we effected a reverse stock split of our issued and outstanding common stock at a ratio of 1-for-0.625 (the "Reverse Split"), wherein 0.625 shares of our Common Stock were issued in exchange for each share of Common Stock issued and outstanding.

On April 29, 2015, the Company, CLS Labs and the Merger Sub consummated the Merger, whereby the Merger Sub merged with and into CLS Labs, with CLS Labs remaining as the surviving entity. As a result of the Merger, we acquired the business of CLS Labs and abandoned our previous business. As such, only the financial statements of CLS Labs are included herein.

CLS Labs was originally incorporated in the state of Nevada on May 1, 2014 under the name RJF Labs, Inc. before changing its name to CLS Labs, Inc. on October 24, 2014. It was formed to commercialize a proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. These concentrates may be ingested in a number of ways, including through vaporization via electronic cigarettes ("e-cigarettes"), and used for a variety of pharmaceutical and other purposes. Testing in conjunction with two Colorado growers of this extraction method and conversion process has revealed that it produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace.

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including PRH. During 2017, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined if or when we will pursue them again.

We have been issued a U.S. patent with respect to our proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. These concentrates may be ingested in a number of ways, including through vaporization via electronic cigarettes, and used for a variety of pharmaceutical and other purposes. Internal testing of this extraction method and conversion process has revealed that it produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace. We have not yet commercialized our proprietary process. We plan to generate revenues through licensing, fee-for-service and joint venture arrangements related to our proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

We intend to monetize our extraction and conversion method and generate revenues through (i) the licensing of our patented proprietary methods and processes to others, (ii) the processing of cannabis for others, and (iii) the purchase of cannabis and the processing and sale of cannabis-related products. We plan to accomplish this through the acquisition of companies, the creation of joint ventures, through licensing agreements, and through fee-for-service arrangements with growers and dispensaries of cannabis products. We believe that we can establish a position as one of the premier cannabinoid extraction and processing companies in the industry. Assuming we do so, we then intend to explore the creation of our own brand of concentrates for consumer use, which we would sell wholesale to cannabis dispensaries. We believe that we can create a "gold standard" national brand by standardizing the testing, compliance and labeling of our products in an industry currently comprised of small, local businesses with erratic and unreliable product quality, testing practices and labeling. We also plan to offer consulting services through Cannabis Life Sciences Consulting, LLC, which will generate revenue by providing consulting services to cannabis-related businesses, including growers, dispensaries and laboratories, and driving business to our processing facilities.

On December 4, 2017, we entered into the Acquisition Agreement with Alternative Solutions to acquire the outstanding equity interests in the Oasis LLCs. Pursuant to the Acquisition Agreement, as amended, we paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 on February 5, 2018, for an initial 10% of Alternative Solutions and each of the subsidiaries. At the closing of our purchase of the remaining 90% of the ownership interests in Alternative Solutions and the Oasis LLCs, which occurred on June 27, 2018, we paid the following consideration: $5,995,543 in cash, a $4.0 million promissory note due in December 2019, and $6,000,000 in shares of our Common Stock. The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because we assumed an additional $204,457 of liabilities. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs. We received final regulatory approval to own the membership interests in the Oasis LLCs on December 12, 2018.

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc., a Massachusetts corporation ("IGH"), entered into an Option Agreement (the "IGH Option Agreement"). Under the terms of the IGH Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that is 60 days after such date. If CLS Massachusetts exercises the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH will enter into a merger agreement (the form of which has been agreed to by the parties) (the "IGH Merger Agreement"). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts will pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted Common Stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement have entered into agreements pursuant to which such stockholders have, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, we made a loan to IGH, in the principal amount of $5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan is evidenced by a secured promissory note of IGH, which bears interest at the rate of 6% per annum and matures on October 31, 2021. To secure the obligations of IGH to us under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to us a first priority lien on and security interest in all personal property of IGH. If we do not exercise the Option on or prior to the date that is 30 days following the end of the option period, the loan amount will be reduced to $2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay the closing until January 2020.

On September 13, 2018, we entered into a non-binding letter of intent (the "CannAssist LOI") with CannAssist, LLC ("CannAssist") setting forth the terms and conditions upon which we propose to acquire an 80% ownership interest in CannAssist. CannAssist plans to build out a recreationally licensed cultivation grow facility in Leicester, Massachusetts.

On January 29, 2019, we made a line of credit loan to CannAssist, in the principal amount of up to $500,000, subject to the terms and conditions set forth in that certain Loan Agreement, dated as of January 29, 2019 between CannAssist as the Borrower and the Company as the Lender (the "CannAssist Loan Agreement"). The Loan is evidenced by a secured promissory note of CannAssist (the "CannAssist Note"), which bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. CannAssist has drawn down $325,000 on the CannAssist Note. At August 26, 2019, CannAssist had drawn down $325,000 on the CannAssist Note.

To secure the obligations of CannAssist to the Company under the CannAssist Loan Agreement and the CannAssist Note, the Company and CannAssist entered into a Security Agreement dated as of January 29, 2019, pursuant to which CannAssist granted to the Company a first priority lien on and security interest in all personal property of CannAssist.

On March 11, 2019, the Company, through our wholly-owned subsidiary, CLS Massachusetts, entered into a membership interest purchase agreement (the "CannAssist Purchase Agreement") with CannAssist, each of the members of CannAssist, and David Noble, as the members' representative. Mr. Noble currently serves as the President of IGH, an entity that we hold an option to acquire. After conducting diligence regarding the cost of the planned buildout of the CannAssist facility, the parties jointly decided to terminate the CannAssist Purchase Agreement effective August 26, 2019. The CannAssist Note will be due and payable in full not later than February 28, 2020.

On January 4, 2018, the Attorney General of the United States issued new written guidance concerning the enforcement of federal laws relating to marijuana. The Attorney General's memorandum stated that previous DOJ guidance specific to marijuana enforcement, including the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, the "Cole Memo") is unnecessary and is rescinded, effective immediately. The Cole Memo told federal prosecutors that in states that had legalized marijuana, they should use their prosecutorial discretion to focus not on businesses that comply with state regulations, but on illicit enterprises that create harms like selling drugs to children, operating with criminal gangs, and selling across state lines. Although the rescission did not change federal law, as the Cole Memo and other DOJ guidance documents were not themselves laws, the rescission removed the DOJ's formal policy that state-regulated cannabis businesses in compliance with the Cole Memo guidelines should not be a prosecutorial priority. Notably, former Attorney General Sessions' rescission of the Cole Memo has not affected the status of the FinCen memorandum issued by the Department of Treasury, which remains in effect. This memorandum outlines Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis business, which echoed the enforcement priorities outlined in the Cole Memo. In addition to his rescission of the Cole Memo, former Attorney General Sessions issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explains the DOJ's rationale for rescinding all past DPJ cannabis enforcement guidance, claiming that Obama-era enforcement policies are "unnecessary" due to existing general enforcement guidance adopted in the 1980s. Although the Sessions Memorandum emphasizes that cannabis is a federally illegal Schedule I controlled substance, it does not otherwise instruct U.S. Attorneys to consider the prosecution of cannabis-related offenses a DOJ priority, and in practice, most U.S. Attorneys have not changed their prosecutorial approach to date. However, due to the lack of specific direction in the Sessions Memorandum as to the priority federal prosecutors should ascribe to such cannabis activities, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

We incurred a net loss of $27,619,057 for the year ended May 31, 2019, and $1,382,402 for the three months ended August 31, 2019, resulting in an accumulated deficit of $46,188,151 as of May 31, 2019, which deficit increased to $47,564,651 as of August 31, 2019. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the Three Months Ended August 31, 2019 and 2018

Revenue

We had revenue of $2,859,015 during the three months ended August 31, 2019, an increase of $1,679,662, or 142%, compared to revenue of $1,179,353 during the three months ended August 31, 2018. We acquired the Oasis LLCs, which are our only source of revenue, effective July 1, 2018, which means that the first quarter of fiscal 2020 included three months of operations of the Oasis LLCs but the comparable quarter of fiscal 2019 included only two months of operations of the Oasis LLCs. This is one of the reasons for the increase in revenues for the first quarter of fiscal 2020. Revenue also increased during the first quarter of 2020 because our average sales per day increased from $19,022 during the first quarter of fiscal 2019 to $31,076 during the comparable quarter of fiscal 2020. Our cannabis dispensary accounted for $2,085,900 of our revenue for the three months ended August 31, 2019, an increase of $1,309,193, or 169%, compared to $776,707 during the three months ended August 31, 2018; our cannabis production accounted for $773,115 of our revenue for the three months ended August 31, 2019, an increase of $370,469, or 92%, compared to $402,646 for the three months ended August 31, 2018.

Cost of goods sold

Our cost of goods sold for the three months ended August 31, 2019 was $1,411,572, an increase of $651,628, or 86%, compared to cost of goods sold of $759,944 for the three months ended August 31, 2018. The increase in cost of goods sold for the three months ended August 31, 2019 was due primarily to our increase in sales during the first quarter of fiscal 2020. Cost of goods sold was 49.4% of sales during the first quarter of fiscal 2020 compared to 64.4% during the first quarter of fiscal 2019. This improvement in gross margin during the first quarter of fiscal 2020 was primarily due to a decrease in the cost of purchasing product as a result of the implementation of new processes, the retention of additional skilled employees and an improvement in inventory purchasing. Cost of goods sold during the first quarter of fiscal 2020 primarily consisted of $1,228,521 of product cost, $107,955 of state and local taxes, and $23,248 of supplies and materials.

Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, decreased by $13,093,816, or approximately 85%, to $2,298,314 during the three months ended August 31, 2019, compared to $15,392,130 for the three months ended August 31, 2018. The decrease in SG&A expenses for the three months ended August 31, 2019 was primarily due to the absence of approximately $12,947,556 in one-time financing and acquisition costs attributable to the acquisition of the Oasis LLCs, which were incurred during the three months ended August 31, 2018. No such comparable expenses were incurred during the first quarter of fiscal 2020.

The major components of these one-time cash and non-cash financing and acquisition costs incurred during the first quarter of fiscal 2019 were as follows: the fair value of additional warrants and special warrants issued due to our failure to meet certain registration statement filing deadlines in connection with the Westpark equity offering and the Canaccord special warrants offering in the amount of $8,084,522; the fair value of the special warrants and compensation broker warrants issued to Canaccord in connection with our sale of the special warrants in the amount of $2,908,673; broker and agent fees and commissions in the amount of $1,060,773; the fair value of 700,000 shares of common stock issued to Star Associates, which is affiliated with one of our directors, for services in connection with the Oasis transaction, of $490,000; and a foreign exchange loss on conversion of the Canaccord funds from Canadian to U.S. dollars in the amount of $403,588.

The decrease in SG&A expense during the first quarter of fiscal 2020 was partially offset by an increase in costs associated with operating the Oasis LLCs during the three months ended August 31, 2019 by an aggregate of $650,108, or approximately 86%, compared to $758,702 during the three months ended August 31, 2018. This increase in operating costs is primarily due to the timing of our acquisition of the Oasis LLCs, which occurred on June 27, 2018. As a result, we incurred these costs for three months during fiscal 2020 compared to approximately two months during fiscal 2019. The major components of the operating costs associated with the Oasis LLCs during the three months ended August 31, 2019 were as follows: payroll and related costs of $735,008; lease, facilities and office costs of $201,271; sales, marketing, and advertising of $117,144; reserve for credit card receivable of $101,512; professional fees of $81,119; insurance of $71,581; and depreciation and amortization of $55,470.

Finally, SG&A decreased by an aggregate of $796,368 during the first quarter of fiscal 2020 as a result of the ongoing implementation of other aspects of our business plan and changes in our general corporate overhead, to an aggregate of $889,504 during the first quarter of fiscal 2020 from $1,685,872 during the first quarter of fiscal 2019. The major components of these changes compared to fiscal 2019 are as follows: legal fees decreased by $778,660; investor relations costs decreased by $103,647; non-cash compensation decreased by $49,416; and facilities, office, and general costs increased by $72,853. These reductions were partially offset by an increase in payroll and related costs by $37,336 and an increase in depreciation and amortization by $31,406. The decrease in legal fees was primarily due to the reduction in acquisition and financing activity that occurred during the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019.

Interest expense

Interest expense for the three months ended August 31, 2019 was $800,629, a decrease of $883,590, or 52%, compared to $1,684,219 for the three months ended August 31, 2018. This decrease was primarily due to a decrease in the amortization of the discount on convertible notes, which decreased by $1,150,211 to $448,291, compared to $1,598,502 in the comparable period of the prior year. During the prior year, amortization of the discount in the amount of $699,628 was recorded in connection with the material modification of the YA II PN note, and amortization of the discount in the amount of $509,573 was recorded in connection with the conversion of the Darling Capital note to common stock. There were no comparable transactions during the three months ended August 31, 2019. During the year ended August 31, 2019, interest expense also decreased due to an increase in interest income in the amount of $82,169 due to higher cash balances maintained during the period.

The decrease in net interest expense was partially offset during the three months ended August 31, 2019 by interest accrued on the Company's outstanding notes payable and convertible debentures, which was $434,507 during the first quarter of fiscal 2020, an increase of $352,558, compared to $81,949 during the first quarter of fiscal 2019. The increase was due to increased debt in connection with the Company's successful fundraising efforts during fiscal 2019.

Gain on settlement of liabilities

During the three months ended August 31, 2019, we made a prepayment on the Oasis Note in connection with the settlement of a dispute between the former owners of Alternative Solutions and a consultant, and the amount of $275,000 which the Company had accrued with respect to this dispute was extinguished.

Net loss

For the reasons above, we incurred a net loss for the three months ended August 31, 2019 of $1,376,500, which was a decrease of $15,280,440, or approximately 92%, compared to a net loss of $16,656,940 during the three months ended August 31, 2018.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital at August 31, 2019 compared to May 31, 2019.

	August 31, 2019	May 31, 2019
Current Assets	$ 8,480,493	$ 12,677,566
Current Liabilities	$ 4,365,395	$ 6,924,543
Working Capital	$ 4,115,098	$ 5,753,023

At August 31, 2019, we had working capital of $4,115,098, a decrease of $1,637,295 from working capital of $5,753,023 at May 31, 2019. Our working capital at August 31, 2019, includes $5,907,899 of cash. The decrease in working capital was a result primarily of our payments for equipment and leasehold improvements in the amount of $974,199 in connection with the buildout of our cannabis processing facility in Nevada. We also used cash in the amount of $949,463 in our operating activities, including $136,190 of cash deposits that were used for the acquisition of equipment. We are presently expanding the Oasis and City Trees businesses in Nevada and are considering other potential acquisitions, including our previously announced potential acquisition of IGH in Massachusetts. Our working capital needs will likely continue to increase, and if we require additional funds to meet them, we will seek additional debt or equity financing. We have operated at a loss since inception.

Cash flows used in operating activities were $949,463 during the three months ended August 31, 2019, a decrease of $2,860,924, or 75%, compared to $3,810,387 during the three months ended August 31, 2018. In deriving cash flows used in operating activities from the net loss for fiscal 2020, there were $331,431 of non-cash items that were added back to the net loss for fiscal 2020 compared to $13,666,813 during the three months ended August 31, 2018. Significant items were as follows: gain on contingent liabilities of $275,000 during the three months ended August 31, 2019, compared to no such comparable gains during the three months ended August 31, 2018; amortization of debt discounts in the amount of $448,291 during the three months ended August 31, 2019 in connection with discounts on the U.S. and Canaccord convertible debentures, compared to $1,598,501 during the three months ended August 31, 2018 in connection with the discounts on the Darling Capital, Efrat Investments, YA II PN and Lasky notes; stock-based compensation of $63,222 during the three months ended August 31, 2019, compared to $120,138 during the three months ended August 31, 2018; and the fair value of shares issued to consultants of $7,500 during the three months ended August 31, 2019, compared to $490,000 during the three months ended August 31, 2018. The Company also incurred approximately $11,400,000 of non-cash financing charges during the first quarter of fiscal 2019 and had no comparable activity during the first quarter of fiscal 2020. These charges consisted of a financing penalty in the amount of $8,084,522 associated with our issuance of warrants and special warrants, $2,908,673 related to the value of warrants and units issued to placement agents, and non-cash offering costs of $403,588.

Finally, our cash used in operating activities was affected by changes in the components of working capital. The overall net change in the components of working capital resulted in an increase in cash from operating activities in the amount of $95,606 during the three months ended August 31, 2019, compared to a decrease in cash from operating activities in the amount of $820,260 during the first quarter of fiscal 2019. The more significant changes in the components of working capital that increased the amount of cash from operating activities during the three months ended August 31, 2019 were as follows: accrued interest increased cash by $433,937, which was primarily related to the increased principal outstanding on the convertible debentures of $18,705,396 at August 31, 2019 compared to $0 at August 31, 2018. In addition, right of use asset, net of operating lease liability, increased cash from operating activities by $141,546 due to lease payments made and recorded in accordance with ASU 2016-02. The more significant changes in the components of working capital that decreased the amount of cash from operating activities during the three months ended August 31, 2019 were as follows: accounts payable and accrued expenses decreased cash by $267,861, primarily due to the elimination of deferred rent in the amount of $151,399 in connection with the implementation of ASU 2016-02; and interest receivable decreased cash by $82,169 due to interest accruals on the CannAssist and IGH notes receivable, which were not yet outstanding during the quarter ended August 31, 2018.

Cash flows used in investing activities were $1,098,199 for the three months ended August 31, 2019, a decrease of $4,884,511, or 82%, compared to $5,982,710 during the three months ended August 31, 2018. During the three months ended August 31, 2019, we made cash payments in the amount of $923,199 to purchase equipment and build out our leased facilities in Nevada pursuant to our expansion plan. We also made a loan in the amount of $175,000 to CannAssist. During the three months ended August 31, 2018, we made a net cash payment in the amount of $5,982,710 in connection with the acquisition of Alternative Solutions.

Cash flows used in financing activities were $2,570,230 for the three months ended August 31, 2019, an increase of $18,264,288, or 116%, compared to cash provided by financing activities of $15,694,058 during the three months ended August 31, 2018. During the three months ended August 31, 2019, we made a cash prepayment in the amount of $2,570,230 on the Oasis note payable. During the three months ended August 31, 2018, we received cash in the amount of $15,535,978 from the sale of equity to Navy Capital and in the Canaccord Special Warrant Offering. Cash flows from financing activities also decreased during the three months ended August 31, 2018 by $386,381 due to principal payments on the Blatt, AJG Group, and Binder notes, and by $37,500 due to principal payments on the Binder convertible notes.

Third Party Debt

The table below summarizes the status of our third party debt and reflects whether such debt remains outstanding, has been repaid, or has been converted into or exchanged for our Common Stock:

Name of Note	Original Principal Amount	Outstanding or Repaid	Payment Details
FirstFire Note	$ 363,000	Repaid	Repaid
Darling Capital Note	$ 550,000	Repaid	Converted into 1,808,000 shares
Efrat Investments Note	$ 55,000	Repaid	Converted into 183,040 shares
Todd Blatt	$ 210,000	Repaid	Repaid
AJG Group	$ 100,000	Repaid	Repaid
YA II PN Note	$ 750,000	Repaid	Repaid
	$ 250,000	Repaid	$250,000 plus interest converted into 700,616 shares of Common Stock.
	$ 250,000	Repaid	$250,000 plus interest converted into 640,068 shares of Common Stock.
Oasis Note	$ 4,000,000	Outstanding	Due December 2019; $2,500,000 prepaid and $138,784 credited for legal and other costs.
2018 U.S. Convertible Debentures	$ 5,857,000	Outstanding	Due October 26-31, 2021
2018 Convertible Debentures	$ 12,012,000	Outstanding	Due December 2021. Principal and interest in the aggregate amount of $25,803 converted into 32,321 shares of Common Stock.

Darling Capital Note

On February 5, 2018, we entered into a securities purchase agreement with Darling, whereby Darling agreed to purchase an 8% convertible promissory note in the aggregate principal amount of $550,000 (the “Darling Note”) from us due, subject to the terms therein, eighteen (18) months from the date of issuance, for a purchase price of $500,000.

Darling could, at its option, convert all or a portion of the Darling Note and accrued but unpaid interest into shares of Common Stock at a conversion price of $0.3125 per share. On the closing date, we also issued Darling a three-year Common Stock purchase warrant to purchase 400,000 shares of our Common Stock at an initial exercise price of $0.75 per share.

On June 12, 2018, we received a conversion notice from Darling notifying us that it had converted $550,000 in principal and $15,000 of accrued interest into 1,808,000 shares of our Common Stock.

Efrat Investments Note

On February 16, 2018, we entered into a securities purchase agreement with Efrat, whereby Efrat agreed to purchase an 8% convertible promissory note in the aggregate principal amount of $55,000 (the "Efrat Note") from us due, subject to the terms therein, eighteen (18) months from the date of issuance, for a purchase price of $50,000.

Efrat could, at its option, convert all or a portion of the Efrat Note and accrued but unpaid interest into shares of Common Stock at a conversion price of $0.3125 per share. On the closing date, we also issued Efrat a three-year Common Stock purchase warrant to purchase 40,000 shares of our Common Stock at an initial exercise price of $0.75 per share.

On August 9, 2018, we received a conversion notice from Efrat notifying us that it had converted $55,000 in principal and $2,200 of accrued interest into 183,040 shares of our Common Stock.

The YA II PN, Ltd. Notes

On May 11, 2018, we entered into a securities purchase agreement with YA II, pursuant to which we agreed to sell to YA II, in two closings, (i) convertible debentures in the aggregate principal amount of $1,250,000, plus accrued interest, which may be converted into shares of our Common Stock, at the discretion of either YA II or us in accordance with the terms of the debentures, and (ii) five-year warrants to purchase an aggregate of 3,125,000 shares of our Common Stock at $0.60 per share of Common Stock. At the first closing, which occurred on May 14, 2018, we issued a $750,000 debenture to YA II and warrants to purchase 1,875,000 shares of our Common Stock. At the second closing, which occurred on July 20, 2018, we issued a $500,000 debenture to YA II and warrants to purchase 1,250,000 additional shares of our Common Stock.

The debentures bear interest at the rate of 8% per annum. If an event of default occurs and for so long as such event of default remains uncured, the interest rate on the debentures shall immediately become 15% per annum and shall remain at such increased interest rate until the applicable event of default is cured.

Commencing on December 1, 2018 and on the first day of each month thereafter through July 1, 2019, subject to certain exceptions, we shall pay to YA II one-eighth of the principal amount of the debentures, plus accrued and outstanding interest (the "Installment Amount"), plus 20% of the of the Installment Amount for Installment Amounts due within 180 days following the date of execution of the purchase agreement, and 25% of the Installment Amount for Installment Amounts due thereafter in cash or by converting such Installment Amount into shares of our Common Stock. if we have met the applicable conditions for such a conversion and as long as the conversion does not exceed certain maximum amounts. Each Installment Amount will be deferred to the maturity date if the daily dollar volume-weighted average price of our Common Stock equals or exceeds $0.40 per share for each of the 10 consecutive days preceding the fifth trading day prior to the respective installment date.

Pursuant to the terms of the debentures, YA II may elect to convert any portion of the principal and accrued interest under the debentures into our Common Stock at a fixed conversion price of $0.40 per share. The fixed conversion price may change if certain dilutive events or issuances occur. In addition, we may, at our sole discretion, make an Installment Payment using our Common Stock if certain conditions have been met. In such case, the applicable conversion price would be equal to 75% of the VWAP of our Common Stock during the fifteen consecutive trading days immediately preceding such conversion. During the three months ended August 31, 2018, a reset event occurred. As a result, the conversion price of the first YA II PN Note, in the principal amount of $750,000, was reduced to $0.34 per share of Common Stock.

During the year ended May 31, 2019, YA II converted a total of $280,247, which consisted of $250,000 of principal and $30,247 of accrued interest, into 700,616 shares of Common Stock. On January 8, 2019, YA II converted $256,027, of which $250,000 was principal and $6,027 was accrued interest, into 640,068 shares of Common Stock.

On February 28, 2019, we redeemed all of the convertible debentures issued to YA II in full for total cash consideration of $964,787.

Blatt Note

On February 7, 2018, we issued a note payable to Todd Blatt in the amount of $210,000. This note accrued interest at a rate of 6% per annum and was due on February 7, 2019. This note along with $5,627 of accrued interest was paid on July 20, 2018.

AJG Group Note

On February 7, 2018, we issued a note payable to AJG Group in the amount of $200,000. This note accrued interest at a rate of 6% per annum and was due on February 7, 2019. We made a principal payment in the amount of $100,000 on this note on March 30, 2018; we then made an additional principal payment of $100,000, together with accrued interest in the amount of $3,337, on July 9, 2018.

Oasis Note

On June 27, 2018, we closed on the purchase of the remaining 90% of the membership interests of Alternative Solutions and the Oasis LLCs. The closing occurred pursuant to the Acquisition Agreement dated December 4, 2017, as amended. On such date, we made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (the "Oasis Note"), and 22,058,823 shares of our Common Stock. The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because we assumed an additional $204,457 in liabilities. The Oasis Note bears interest at the rate of 6% per annum. The principal amount of the Oasis Note was reduced in August 2019, in accordance with the terms of the Acquisition Agreement, as a result of the settlement of the dispute between the former owners of Alternative Solutions and 4Front Advisors, a consultant to Alternative Solutions. The terms of the settlement with 4Front Advisors are confidential. The balance of the Oasis Note may be prepaid at any time without penalty. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs.

2018 U.S. Convertible Debenture Offering

Between October 25, 2018 and November 2, 2018, we entered into six subscription agreements, pursuant to which we agreed to sell, for an aggregate purchase price of $5,857,000, $5,857,000 in original principal amount of convertible debentures in minimum denominations of $1,000 each. The debentures bear interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen (18) months following their issuance, being payable by increasing the then-outstanding principal amount of the debentures. The debentures mature on a date that is three years following their issuance. The debentures are convertible into units at a conversion price of $0.80 per unit. Each unit consists of (i) one share of our Common Stock, par value $.001 and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of Common Stock at a price of $1.10. The debentures have other features, such as mandatory conversion in the event our Common Stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The debentures are unsecured obligations of the Company and rank pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. Navy Capital and its affiliates purchased $5,000,000 in principal amount of debentures, with the remaining $857,000 in principal amount being purchased by several unaffiliated purchasers. The debentures include a provision for the capitalization of accrued interest on a quarterly basis; at August 31, 2019, accrued interest in the aggregate amount of $321,730 has been capitalized, and the aggregate principal amount of the debentures is $6,178,730.

If the debentures are converted, the warrants that would be issued are exercisable from time to time, in whole or in part for three years. The warrants have anti-dilution provisions that provide for an adjustment to the exercise price in the event of a future sale of our Common Stock at a lower price, subject to certain exceptions as set forth in the warrant. The warrants also provide that we can force their exercise at any time after the bid price of our Common Stock exceeds $2.20 for a period of 20 consecutive business days.

On July 26, 2019, we entered into amendments to these convertible debentures with four of the purchasers, pursuant to which we agreed to adjust the conversion price of the original debentures if, in general, we issue or sell common stock, or warrants or options exercisable for common stock, or any other securities convertible into common stock, in a capital raising transaction, at a consideration per share, or exercise or conversion price per share, as applicable, less than the conversion price of the original debentures in effect immediately prior to such issuance (a "Dilutive Issuance"). In such case, the conversion price of the original debentures will be reduced to such issuance price (the "Adjusted Conversion Price"). The amendments also provides that, if a Dilutive Issuance occurs, the warrant to be issued upon conversion will be exercisable at a price equal to 137.5% of the Adjusted Conversion Price at the time of conversion of the debenture (the "Revised Warrant Exercise Price"). If a Dilutive Issuance occurs, the form of warrant attached to the subscription agreement shall be amended to change the Initial Exercise Price, as defined therein, to be the Revised Warrant Exercise Price.

2018 Convertible Debenture Offering

On December 12, 2018, we entered into an agency agreement with two Canadian agents regarding a private offering of up to $40 million of convertible debentures of the Company at an issue price of $1,000 per debenture. The agents sold the convertible debentures on a commercially reasonable efforts private placement basis. Each debenture is convertible into units of the Company at the option of the holder at a conversion price of $0.80 per unit at any time prior to the close of business on the last business day immediately preceding the maturity date of the debentures, being the date that is three (3) years from the closing date of the offering (the "2018 Convertible Debenture Offering"). Each unit will be comprised of one share of Common Stock and a warrant to purchase one-half of a share of Common Stock. Each warrant will be exercisable for one share of Common Stock at a price of $1.10 per warrant for a period of 36 months from the closing date.

We closed the 2018 Convertible Debenture Offering on December 12, 2018, issuing $12,012,000 million in 8% senior unsecured convertible debentures at the initial closing. At the closing, we paid the agents: (A)(i) a cash fee of $354,000 for advisory services provided to us in connection with the offering; (ii) a cash commission of $720,720, equivalent to 6.0% of the aggregate gross proceeds received at the closing of the offering; (B)(i) an aggregate of 184,375 units for advisory services; and (ii) a corporate finance fee equal to 375,375 units, which is the number of units equal to 2.5% of the aggregate gross proceeds received at the closing of the offering divided by the conversion price; and (C)(i) an aggregate of 442,500 advisory warrants; and (ii) 900,900 broker warrants, which was equal to 6.0% of the gross proceeds received at the closing of the offering divided by the conversion price. The debentures include a provision for the capitalization of accrued interest on a quarterly basis; at August 31, 2019, accrued interest in the amount of $540,522 had been capitalized. During the three months ended August 31, 2019, principal in the amount of $25,856 was converted into 32,319 shares of common stock, and the principal amount of the debenture is $12,526,666.

The debentures are unsecured obligations of the Company, rank pari passu in right of payment of principal and interest and were issued pursuant to the terms of a debenture indenture, dated December 12, 2018, between the Company and Odyssey Trust Company as the debenture trustee. The debentures bear interest at a rate of 8% per annum from the closing date, payable on the last business day of each calendar quarter. For a period of 18 months from the closing date, any interest payable shall automatically accrue and be capitalized to the principal amount of the debentures and shall thereafter be deemed to be part of the principal amount of the convertible debentures.

Beginning on the date that is four (4) months plus one (1) day following the closing date, we may force the conversion of all of the principal amount of the then outstanding debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of our Common Stock be greater than $1.20 per share for the preceding 10 consecutive trading days.

Upon a change of control of the Company, holders of the debentures have the right to require us to repurchase their debentures at a price equal to 105% of the principal amount of the debentures then outstanding plus accrued and unpaid interest thereon. The debentures also contain standard anti-dilution provisions.

If, at the time of exercise of any warrant in accordance with the warrant indenture, there is no effective registration statement under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") covering the resale by the holder of a portion of the shares of Common Stock to be issued upon exercise of the warrant, or the prospectus contained therein is not available for the resale of the shares of Common Stock by the holder under the U.S. Securities Act by reason of a blackout or suspension of use thereof, then the warrants may be exercised, in part for that portion of the shares of Common Stock not registered for resale by the holder under an effective registration statement or in whole in the case of the prospectus not being available for the resale of such shares of Common Stock, at such time by means of a "cashless exercise" in which the holder shall be entitled to receive a number of shares of Common Stock equal to the quotient obtained by dividing [(A-B) (X)] by (A), where: A = the last volume weighted average price ("VWAP") for the trading day immediately preceding the time of delivery of the exercise form giving rise to the applicable "cashless exercise"; B = the exercise price of the warrant; and X = the number of shares of Common Stock that would be issuable upon exercise of the warrant in accordance with the terms of such warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

Pursuant to the agency agreement, we granted the agents an option to increase the offering by an additional $6 million in principal amount of debentures, which option was not exercised by the agents prior to the closing date of the offering.

Pursuant to the agency agreement and the subscription agreements signed by investors in the offering, we granted certain registration rights to the holders of the debentures pursuant to which we agreed to prepare and file a registration statement with the SEC to register the resale by the original purchasers of the debentures of the shares of Common Stock issuable upon conversion of the debentures or exercise of the warrants.

Related Party Debt

David Lamadrid Note

On February 26, 2018, we entered into a securities purchase agreement with Mr. Lamadrid, our former President and Chief Financial Officer, whereby Mr. Lamadrid agreed to purchase an 8% convertible promissory note in the aggregate principal amount of $31,250 (the "Lamadrid Note") from us due, subject to the terms therein, eighteen (18) months from the date of issuance.

Mr. Lamadrid could, at his option, convert all or a portion of the Lamadrid Note and accrued but unpaid interest into shares of Common Stock at a conversion price of $0.3125 per share. On the closing date, we also issued Mr. Lamadrid a three-year Common Stock purchase warrant to purchase 25,000 shares of our Common Stock at an initial exercise price of $0.75 per share.

On August 21, 2018, we received a conversion notice from Mr. Lamadrid notifying us that he had converted $31,250 in principal and $1,247 of accrued interest into 103,989 shares of our Common Stock.

Koretsky and Affiliate Notes

Between August 11, 2015 and May 31, 2017, we borrowed an aggregate of $1,657,000 from Frank Koretsky, a director of the Company, and $150,000 from CLS CO 2016, LLC and $465,000 from Newcan, two entities that are affiliated with Mr. Koretsky. These loans were unsecured, accrued interest between 6% and 15% per year, were due either on demand or within three years after the date of the applicable note, and, in some cases, were convertible into shares of our Common Stock and warrants at rates between $0.25 and 1.07 per share. Effective on May 31, 2017, we entered into the Omnibus Loan Amendment Agreement, whereby the portion of these loans that was advanced prior to December 31, 2017 was converted into our Common Stock, together with accrued interest on these loans. As a result of these conversions, Mr. Koretsky, CLS CO 2016, LLC and Newcan converted an aggregate of $1,485,000, $150,000, and $460,000 in principal, and $130,069, 49,247 and $7,747 in accrued interest, into an aggregate of 6,460,276, 636,988 and 1,870,988 shares of Common Stock at $0.25 per share. Pursuant to the Omnibus Loan Amendment Agreement, the conversion rate on all of the loans made by Mr. Koretsky, CLS CO 2016, LLC and Newcan was reduced, if applicable, to $0.25 per share and Mr. Koretsky and his affiliates gave up the right to receive warrants upon conversion. Thus, each of Mr. Koretsky, CLS CO 2016, LLC and Newcan received 4,560,849, 488,159 and 1,433,841 shares of Common Stock in excess of what they would have received had they converted their loans into Common Stock prior to the effective date of the Omnibus Loan Amendment Agreement.

Between June 1, 2017 and May 31, 2018, we borrowed an aggregate of $145,000 from Newcan Investment Partners, LLC, an entity that is affiliated with Mr. Koretsky. These loans were unsecured, accrued interest at 10% per year, were due either on demand or within three years after the date of the applicable note, and were convertible into shares of our Common Stock and warrants at $0.25 per share. On January 10, 2018, effective December 1, 2017, we entered into the Second Omnibus Loan Agreement with Newcan and Mr. Binder. The Second Omnibus Loan Agreement provides that the conversion price of all outstanding convertible promissory notes issued to Newcan as of the date of the agreement would be increased from $0.25 to $0.3125 per share of Common Stock. The remaining terms of such notes remain unchanged. Following the Second Omnibus Loan Agreement, on March 12, 2018, Newcan converted all of its outstanding convertible loans, which totaled $956,658 in principal and $98,098 in accrued interest, into a total of 3,375,220 shares of our Common Stock.

On August 6, 2018, we issued a convertible promissory note to Newcan, an entity owned by Frank Koretsky, a director of the Company, in the amount of $75,000 (the "Newcan Convertible Note 8"), to finalize the terms of repayment with respect to a certain loan made to the Company by Newcan on May 4, 2018, which was converted into 196,336 shares of Common Stock on October 23, 2018.

Binder Notes

Between June 1, 2015 and May 31, 2017, we borrowed an aggregate of $251,800 from Jeffrey Binder, a director and officer of the Company. These loans were unsecured, accrued interest between 6% and 10% per year, were due either on demand or within three years after the date of the applicable note, and, in some cases, were convertible into shares of our Common Stock and warrants at rates between $.25 and 1.07 per share. Effective on May 31, 2017, we entered into the Omnibus Loan Amendment Agreement, whereby the portion of these loans that was advanced prior to May 31, 2017 was converted into our Common Stock, together with accrued interest on these loans. As a result of these conversions, Mr. Binder converted an aggregate of $442,750 in principal and $19,427 in accrued interest, into an aggregate of 1,848,708 shares of Common Stock at $.25 per share. Pursuant to the Omnibus Loan Amendment Agreement, the conversion rate on all of the loans made by Mr. Binder was reduced, if applicable, to $.25 per share and Mr. Binder gave up the right to receive warrants upon conversion. Thus, Mr. Binder received 1,127,061 shares of Common Stock in excess of what he would have received had he converted his loans into Common Stock prior to the effective date of the Omnibus Loan Amendment Agreement.

Between June 1, 2017 and March 31, 2018, we borrowed an aggregate of $204,881 from Mr. Binder. These loans were unsecured, accrued interest at 10% per year, were due either on demand or within three years after the date of the applicable note, and were convertible into shares of our Common Stock and warrants at $0.25 per share. On January 10, 2018, effective December 1, 2017, we entered into the Second Omnibus Loan Agreement with Newcan and Mr. Binder. The Second Omnibus Loan Agreement provides that the conversion price of all outstanding convertible promissory notes issued to Mr. Binder as of the date of the agreement would be increased from $0.25 to $0.3125 per share of Common Stock. The remaining terms of such notes remain unchanged. Following the Second Omnibus Loan Agreement, on March 12, 2018, Mr. Binder converted all of his outstanding convertible loans, which totaled $464,698 in principal and $43,058 in accrued interest, into a total of 1,624,819 shares of our Common Stock.

On April 6, 2018, we issued Binder Convertible Note 9, in the amount of $37,500, to Mr. Binder with respect to certain compensation payable to Mr. Binder as of February 28, 2018, which was repaid in full on August 7, 2018.

Omnibus Loan Amendment Agreements

On May 31, 2017, we entered into an Omnibus Loan Amendment Agreement (the “Omnibus Loan Amendment”) with Jeffrey Binder, Frank Koretsky, Newcan Investment Partners LLC and CLS CO 2016, LLC (collectively, the “Insiders”). Pursuant to the Omnibus Loan Amendment, we agreed with the Insiders to amend certain terms of loans the Insiders made to us for working capital purposes, which loans were initially demand loans, and, except for certain loans made in 2017, were later memorialized as convertible loans (the “Insider Loans”), in exchange for the agreement of the Insiders to convert all Insider Loans where funds were advanced prior to January 1, 2017, which total $2,537,750, plus $166,490 of accrued interest thereon, into an aggregate of 10,816,960 shares of our Common Stock, and forego the issuance of warrants to purchase our Common Stock upon conversion. This resulted in the issuance of an additional 7,609,910 shares compared to the original number of shares issuable upon conversion of the Insider Loans prior to the Omnibus Loan Agreement. We valued the shares at $0.125, which was the market price of our stock at the conversion date, and charged the amount of $951,239 to loss on modification of debt during the twelve months ended May 31, 2017.

We entered into the Omnibus Loan Amendment in order to ease the debt burden on us and prevent us from defaulting on the Insider Loans. Pursuant to the Omnibus Loan Amendment, the following amendments were made to the Insider Loans: (a) we reduced the conversion price on the Insider Loans from between $0.75 and $1.07 per share of Common Stock to $0.25 per share of Common Stock, in those cases where the conversion price was greater than $0.25, which reduced conversion price exceeds the closing price of the Common Stock during the last three months; (b) we deleted the requirement to issue warrants to purchase our Common Stock upon conversion of the Insider Loans; (c) we amended one Insider Loan to permit conversion of only the portion of the Insider Loan related to services that were provided to us prior to January 1, 2017; and (d) we amended the terms of the Insider Loans where funds were advanced on or after January 1, 2017, which Insider Loans were not converted into our Common Stock, to provide for, where not already the case, a 10% interest rate per annum, a $0.25 conversion price per share of Common Stock, and the deletion of the requirement that we issue warrants to purchase our Common Stock upon conversion of such Insider Loans.

On January 10, 2018, effective December 1, 2017, we entered into the Second Omnibus Loan Agreement with Jeffrey I. Binder, an officer and director of the Company, and Newcan, an entity owned by Frank Koretsky, a director of the Company. The Second Omnibus Loan Agreement provides that the conversion price of all outstanding convertible promissory notes issued to either Mr. Binder or Newcan as of the date of such agreement would be increased from $0.25 to $0.3125 per share of Common Stock. The remaining terms of such notes remain unchanged.

Sales of Equity

The Canaccord Special Warrant Offering

On June 20, 2018, we executed an agency agreement with Canaccord Genuity Corp. and closed on a private offering of our Special Warrants for aggregate gross proceeds of CD$13,037,859 (USD$9,785,978). In connection therewith, we also entered into a Special Warrant Indenture and a Warrant Indenture with Odyssey Trust Company, as special warrant agent and warrant agent.

Pursuant to the offering, we issued 28,973,014 special warrants at a price of CD$0.45 (USD$0.34) per Special Warrant. Each Special Warrant was automatically exercised, for no additional consideration, into Units on November 30, 2018.

Each Unit consisted of one Unit Share and one Warrant to purchase one share of Common Stock. Each Warrant was to be exercisable at a price of CD$0.65 for three years after our Common Stock was listed on a recognized Canadian stock exchange, subject to adjustment in certain events. Because we did not receive a receipt from the applicable Canadian securities authorities for the qualifying prospectus by August 20, 2018, each Special Warrant entitled the holder to receive 1.1 Units (instead of one (1) Unit); provided, however, that any fractional entitlement to Penalty Units was rounded down to the nearest whole Penalty Unit. All Special Warrants were automatically exercised on November 30, 2018.

In connection with the Special Warrant Offering, we paid a cash commission and other fees equal to CD$1,413,267 (USD$1,060,773), a corporate finance fee equal to 1,448,651 Special Warrants with a fair value of USD$1,413,300, and 2,317,842 Broker Warrants. Each Broker Warrant entitles the holder thereof to acquire one unit at a price of CD$0.45 per unit for a period of 36 months from the date that our Common Stock is listed on a recognized Canadian stock exchange, subject to adjustment in certain events. Our Common Stock commenced trading on the Canadian Stock Exchange on January 7, 2019. During the three months ended August 31, 2018, we also issued investors 3,042,167 Special Warrants with a fair value of $7,142,550 as a penalty for failure to timely effect a Canadian prospectus with regard to the securities underlying the Special Warrants.

The Navy Capital Investors

Effective July 31, 2018, we entered into a subscription agreement with Navy Capital Green International, Ltd., a British Virgin Islands limited company ("Navy Capital"), pursuant to which we agreed to sell to Navy Capital, for a purchase price of $3,000,000, 7,500,000 Units ($0.40 per unit), representing (i) 7,500,000 shares of our Common Stock, and (ii) three-year warrants to purchase an aggregate of 7,500,000 shares of our Common Stock (the "Navy Warrant Shares") at an exercise price of $0.60 per share of Common Stock. We valued the warrants using the Black-Scholes valuation model, and allocated gross proceeds in the amount of $1,913,992 to the common stock and $1,086,008 to the warrants. The closing occurred on August 6, 2018. In the subscription agreement, we also agreed to file, on or before November 1, 2018, a registration statement with the SEC registering the shares of Common Stock and Navy Warrant Shares issued to Navy Capital. If we fail to file the registration statement on or before that date, we must issue to Navy Capital an additional number of units equal to ten percent (10%) of the units originally subscribed for by Navy Capital (which will include additional warrants at the original exercise price). The warrant is exercisable from time to time, in whole or in part for three years. The warrant has anti-dilution provisions that provide for an adjustment to the exercise price in the event of a future sale of Common Stock at a lower price, subject to certain exceptions as set forth in the warrant. The warrant also provides that it is callable at any time after the bid price of our Common Stock exceeds 120% of the exercise price of the warrant for a period of 20 consecutive business days.

Between August 8, 2018 and August 10, 2018, we entered into five subscription agreements, pursuant to which we sold, for an aggregate purchase price of $2,750,000, 6,875,000 Units ($0.40 per unit), representing (i) 6,875,000 shares of our Common Stock, and (ii) three-year warrants to purchase an aggregate of 6,875,000 shares of our Common Stock at an exercise price of $0.60 per share of Common Stock. We valued the warrants using the Black-Scholes valuation model, and allocated gross proceeds in the amount of $1,670,650 to the common stock and $1,079,350 to the warrants. The balance of the terms set forth in the subscription agreements are the same as the terms in the Navy Capital subscription agreement summarized above.

The Company valued warrants using the Black-Scholes valuation model utilizing the following variables:

	August 31, 2019	August 31, 2018
Volatility	134.8 to 144.7%	231.1-232.2%
Dividends	$ 0	$ 0
Risk-free interest rates	1.86% to 1.87%	2.65% to 2.67%
Term (years)	3	3

Liquidity and Capital Needs

During fiscal 2020, we will likely require additional capital to cover our projected corporate level cash flow deficits, the implementation of our business plan, including the expansion of our Nevada operation, and the development of other revenue sources, including the closing of the IGH Option Agreement.

During the next twelve months we expect to complete Phase 1 and possibly Phase 2 of our Expansion Plan, which includes the buildout of our processing facility that will utilize our patented technology (Phase 1) and the substantial expansion of our grow facility in Nevada (Phase 2). We do not require additional financing to complete Phase 1 of our Expansion Plan. We hold an option to purchase IGH for a purchase price that includes $35 million in cash, which we plan to fund with the proceeds of future equity sales, warrant exercise proceeds and/or loans. Although we believe we will be successful in raising the capital required to close this acquisition, we have not entered into any definitive agreements with respect to such fundraising and there can be no assurances that we will be able to raise the necessary funds. We may also pursue additional acquisitions in the next twelve months but we have not entered into any definitive agreements with respect to either additional acquisitions or the capital necessary to finance them.

Although our revenues are expected to grow as we expand our operations, our revenues only recently exceeded our Oasis and City Trees operating costs and we do not yet exceed our Oasis and City Trees operating costs and corporate overhead. Although we believe we have funds sufficient to sustain our operations at their current level, if we require additional cash, we expect to obtain the necessary funds as described above; however, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of operations. To address these risks, we must, among other things, seek growth opportunities through additional debt and/or equity investments and acquisitions in our industry, successfully execute our business strategy, including our planned expansion and acquisitions, and successfully navigate any changes that may arise in the cannabis regulatory environment. We cannot assure that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business prospects, financial condition and results of operations.

Oasis Cannabis Transaction

On December 4, 2017, we entered into the Acquisition Agreement, with Alternative Solutions for us to acquire all of the outstanding equity interests in Alternative Solutions and the Oasis LLCs. Pursuant to the Acquisition Agreement, we paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 approximately 45 days thereafter and were to receive, upon receipt of applicable regulatory approvals, an initial 10% of each of the Oasis LLCs. Regulatory approvals were received and the 10% membership interests were transferred to us.

On June 27, 2018, we closed on the purchase of the remaining 90% of the membership interests in Alternative Solutions and the Oasis LLCs from the owners thereof (excluding Alternative Solutions). The closing consideration was as follows: $5,995,543 in cash, a $4.0 million promissory note due in December 2019, known as the Oasis Note, and $6,000,000 in shares of our Common Stock. The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because the Company assumed an additional $204,457 of liabilities.

The number of shares to be issued was computed as follows: $6,000,000 divided by the lower of $1.00 or the conversion price to receive one share of our Common Stock in our first equity offering of a certain minimum size that commenced in 2018, multiplied by 80%. This price was determined to be $0.272 per share. The Oasis Note is secured by a first priority security interest over our membership interests in Alternative Solutions and the Oasis LLCs, and by the assets of each of the Oasis LLCs and Alternative Solutions. We also delivered a confession of judgment to a representative of the former owners of Alternative Solutions and the Oasis LLCs (other than Alternative Solutions) that will generally become effective in the event of any event of default under the Oasis Note.

At the time of closing of the Acquisition Agreement, Alternative Solutions owed certain amounts to a consultant known as 4Front Advisors, which amount was in dispute. In August 2019, we made a payment to this company to settle this dispute and the Oasis Note was reduced accordingly.

In May 2020, the former owners of Alternative Solutions and the Oasis LLCs (other than Alternative Solutions) will also be entitled to a $1,000,000 payment from us if the existing dispensary operated by an Oasis LLC has maintained an average revenue of $20,000 per day during the 2019 calendar year.

The transfer of 90% of the membership interests in Alternative Solutions and the Oasis LLCs to us was approved by the State of Nevada on December 12, 2018.

Consulting Agreements

We periodically use the services of outside investor relations consultants. During the year ended May 31, 2016, pursuant to a consulting agreement, we agreed to issue 10,000 shares of Common Stock per month, valued at $11,600 per month, to a consultant in exchange for investor relations consulting services. The consulting agreement was terminated during the first month of its term. The parties are in discussions regarding whether any shares of our Common Stock have been earned and it is uncertain whether any shares will be issued. As of August 31, 2018, we have included 20,000 shares of Common Stock, valued at $23,200 in stock payable on the accompanying balance sheets. The shares were valued based on the closing market price on the grant date.

On December 29, 2015, pursuant to a consulting agreement, we agreed to issue 25,000 shares of Common Stock per month, valued at $21,250, to a consultant in exchange for investor relations consulting services. The consulting agreement was terminated during the first month of its term. The parties are in discussions regarding whether any shares of our Common Stock have been earned and it is uncertain whether any shares will be issued. As of August 31, 2018, we had 50,000 shares of Common Stock, valued at $42,500 included in stock payable on the accompanying balance sheet. The shares were valued based on the closing market price on the grant date.

In June 2017, we entered into a letter agreement to amend our September 22, 2014 Investor Relations Consulting Agreement. Pursuant to the amendment, we agreed to issue the consultant 24,000 shares of our restricted Common Stock to satisfy $6,000 of past due invoices for services previously rendered by the consultant from January 2017 through June 2017.

On March 2, 2018, we issued 350,000 shares of Common Stock to a consultant pursuant to the terms of a consulting agreement for investor relations services. The shares were valued on the date of grant at $261,800.

On July 24, 2018, we issued 700,000 shares of Common Stock with a fair value of $490,000 to Star Associates for services in connection with the Oasis acquisition. Star Associates is controlled by Andrew Glashow, a director (and current officer) of the Company.

On September 11, 2018, the Company issued 31,250 shares of common stock with a fair value of $25,310 in exchange for legal services previously rendered to the Company. These shares were accrued on February 8, 2018, and were issued from stock payable.

On August 16, 2019, we amended a consulting agreement whereby we agreed to issue up to 200,000 shares of common stock with a fair value of $45,000 plus pay certain amounts in exchange for the consultant's development for us of a corporate finance and investor relations campaign, which services will be provided over a six month period. The amount of $7,500 was charged to operations during the three months ended August 31, 2019 in connection with this agreement.

Going Concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, and had an accumulated deficit of $47,730,959 and working capital of $4,201,918 at August 31, 2019. The report of our independent auditors for the year ended May 31, 2019, contained a going concern qualification. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by early stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to sell equity to support our plans to acquire operating businesses, open processing facilities and finance ongoing operations. There can be no assurance, however, that we will be successful in our efforts to raise additional debt or equity capital and/or that cash generated by our future operations will be adequate to meet our needs. These factors, among others, indicate that we may be unable to continue as a going concern for a reasonable period of time.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Estimates

Management uses various estimates and assumptions in preparing our financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accounting estimates that are the most important to the presentation of our results of operations and financial condition, and which require the greatest use of judgment by management, are designated as our critical accounting estimates. We have the following critical accounting estimates:

- Estimates and assumptions used in the valuation of derivative liabilities: Management utilizes a lattice model to estimate the fair value of derivative liabilities. The model includes subjective assumptions that can materially affect the fair value estimates.

Recently Issued Accounting Standards

Accounting standards promulgated by the Financial Accounting Standards Board (the "FASB") are subject to change. Changes in such standards may have an impact on our future financial statements. The following are a summary of recent accounting developments.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. We have performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. We adopted the ASU and related amendments on June 1, 2019 and expect to elect certain practical expedients permitted under the transition guidance. We elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Under the new guidance, the majority of our leases will continue to be classified as operating. During the first quarter of fiscal 2020, we completed our implementation of our processes and policies to support the new lease accounting and reporting requirements. This resulted in an initial increase in both our total assets and total liabilities in the amount of $1,781,446. The adoption of this ASU is not expected to have a significant impact on our consolidated statements of operations or cash flows on an ongoing basis.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230).* The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Adoption of ASU 2016-15 did not have a material effect on our financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, current U.S. GAAP requires the performance of procedures to determine the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the amendments under this ASU require the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU becomes effective for us on January 1, 2020. The amendments in this ASU will be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed.

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU became effective for us on January 1, 2018, and will be applied to an award modified on or after the adoption date. Adoption of ASU 2017-09 did not have a material effect on the Company's financial statements.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception.

These amendments do not have an accounting effect. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Effective June 1, 2018, we adopted Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. Under ASC 606, we recognize revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on our financial statements as a result of adopting ASC 606.

On June 1, 2018, we adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to equity in the aggregate amount of $1,265,751.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on our consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

This item is not applicable as we are currently considered a smaller reporting company.

Item 4. Controls and Procedures.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit pursuant to the requirements of the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, among other things, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Securities Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

Jeffrey Binder, our Chief Executive Officer and Gregg Carlson, our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on their evaluation, Mr. Binder and Mr. Carlson concluded that our disclosure controls and procedures are not effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings and ensuring that information required to be disclosed by us in the reports we file or submit under the Act is accumulated and communicated to our management, including our chief financial officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure, for the following reasons:

- We do not have an independent board of directors or adequate segregation of duties;
- We have not established a formal written policy for the approval, identification and authorization of related party transactions
- We do not have an independent body to oversee our internal controls over financial reporting and lack segregation of duties due to our limited resources.

We plan to rectify these weaknesses by implementing an independent board of directors and hiring additional accounting personnel once we have additional resources to do so.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

Item 1A. Risk Factors.

This item is not applicable as we are currently considered a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 22, 2019, we issued 500,000 shares of common stock to Ben Sillitoe, Chief Executive Officer of CLS Nevada, in connection with his employment agreement. The issuance of these shares was exempt from registration under the U.S. Securities Act because the shares were issued in a private offering.

On July 22, 2019, we issued 50,000 shares of common stock to Don Decatur, Chief Operating Officer of CLS Nevada, in connection with his employment agreement. The issuance of these shares was exempt from registration under the U.S. Securities Act because the shares were issued in a private offering.

All other issuances and sales of unregistered securities during the reporting period were previously reported on Form 8-K.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

On October 14, 2019 but effective October 1, 2019, CLS Labs, Inc., the Company, and Jeffrey Binder entered into an amendment to Mr. Binder’s employment agreement to provide that the Company would assume all obligations of CLS Labs under the employment agreement. The amendment also extends the term of Mr. Binder’s employment agreement by three years instead of relying on the automatic one-year renewal provision in the employment agreement, and increases Mr. Binder’s annual base salary to $200,000. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Binder resigns or is terminated in connection with a change in control of the Company. In connection with the amendment, the parties also amended and restated that certain Confidentiality, Non-Compete and Property Rights Agreement entered into by and between RJF Labs, Inc. (now CLS Labs), and Mr. Binder effective as of July 16, 2014.

On October 14, 2019 but effective October 1, 2019, the Company and Andrew Glashow entered into an amendment to his employment agreement to extend the term of Mr. Glashow's employment agreement by one year instead of relying on the automatic one-year renewal provision in the employment agreement, and to increase Mr. Glashow’s annual base salary to $200,000. The amendment also provides that in addition to his base salary, Mr. Glashow is entitled to receive, on an annual basis, a performance-based bonus equal to two percent (2%) of the Company’s annual EBITDA up to a maximum annual cash compensation of $1 million including base salary, and annual stock options, exercisable at the fair market value of the Company’s common stock on the effective date of grant, in an amount equal to 2% of the Company’s EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Glashow resigns or is terminated in connection with a change in control of the Company.

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Item 6. Exhibits.

10.1	Amendment to Employment Agreement, dated October 14, 2019 but effective October 1, 2019, by and among CLS Holdings, Inc., CLS Labs, Inc. and Jeffrey I. Binder (1)
10.2	Amendment to Employment Agreement, dated October 14, 2019 but effective October 1, 2019, by and among CLS Holdings USA, Inc., and Andrew Glashow (1)
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(1) Management Contract or Compensation Plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLS HOLDINGS USA, INC.

Date: October 15, 2019	By:	/s/ Jeffrey I. Binder Jeffrey I. Binder Chairman and Chief Executive Officer (Principal Executive Officer)
Date: October 15, 2019	By:	/s/ Gregg Carlson Gregg Carlson Chief Financial Officer (Principal Financial and Accounting Officer)

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (hereinafter referred to as the "Amendment") is entered into by and among, CLS Holdings USA, Inc., a Nevada corporation (hereinafter referred to as the "Company"), CLS Labs, Inc., a Nevada corporation and a wholly owned subsidiary of the Company ("CLS Labs"), and Jeffrey I. Binder (hereinafter referred to as "Executive").

WHEREAS, CLS Labs and the Executive entered into an Employment Agreement effective October 1, 2014, the initial term of which expires on September 30, 2019, and an addendum to Executive's Employment Agreement dated April 28, 2015 (collectively, the "Agreement");

WHEREAS, CLS Labs, the Company and the Executive have agreed that commencing on July 1, 2019, the Company will assume all obligations of CLS Labs under the Agreement;

WHEREAS, the Company and the Executive desire to extend the term of the Agreement for three years instead of relying on the automatic one-year renewal provision in the Agreement;

WHEREAS, the Company desires to increase the Executive's base salary, effective as of October 1, 2019, to Two Hundred Thousand Dollars ($200,000.00) per annum;

WHEREAS, the Company desires to provide the Executive with certain benefits upon a change in control of the Company;

WHEREAS, in connection with this Amendment, the parties are amending and restating that certain Confidentiality, Non-Compete and Property Rights Agreement entered into by and between RJF Labs, Inc. (now CLS Labs), and Executive effective as of July 16, 2014, a copy of which is attached as Exhibit A to the Agreement.

NOW THEREFORE, the Company, CLS Labs and Executive hereby amend the Agreement as follows:

1. Assignment of Agreement. Effective October 1, 2019, CLS Labs shall assign and the Company shall assume all obligations of CLS Labs under the Agreement and Executive consents to such assignment and assumption.

2. Term of Employment. The Agreement shall be extended for three (3) years commencing on October 1, 2019 and ending on September 30, 2022. Upon expiration of the term, the Agreement shall automatically renew for successive terms of one (1) year, unless, without limiting the application of Sections 5, 6 and 7 of the Agreement, either party, at least sixty (60) days prior to such renewal, gives the other party written notice of intent not to renew.

3. Base Salary. Section 3(a) of the Agreement shall be amended to increase Executive's base salary, effective October 1, 2019, to Two Hundred Thousand Dollars ($200,000.00) per annum, payable in installments according to the Company's normal payroll practices and less legal and applicable withholdings.

4. Stock Options. Section 3(h)(ii) of the Agreement shall be deleted and replaced with the following language: "(ii) Except as set forth in Section 6(b), the options shall be extinguished, to the extent not exercised, if Executive is no longer employed by the Company for any reason. Each option shall be evidenced by an option agreement that contains these terms and other provisions generally applicable to the Company's stock option agreements."

5. Termination due to Change in Control. The heading of Section 6 of the Agreement shall be amended to read "Termination by Company for Cause or Termination due to Change in Control," and the existing language in Section 6 of the Agreement shall be deleted and replaced with the following language:

(a) *Termination for Cause.* The Company may terminate this Agreement, and Executive's employment, "for cause" at any time. As used herein, "for cause" shall mean any one of the following:

(i) The willful breach or habitual neglect by Executive of his job duties and responsibilities after notice by the Company; or

(ii) Conviction of any felony that should cause Executive to be unfit for continued employment by the Company or prevent Executive from performing his duties hereunder; or

(iii) Commission of an act of "dishonesty," which act directly or indirectly involves the Company (an act of Executive shall not be deemed to be "dishonest" if Executive took such action in Executive's good faith belief that it was honest and in the best interest of the Company); or

(iv) Any act or omission deemed as grounds for termination of employees as set forth in the Company's personnel policies in existence at the time; or

(v) A material breach of this Agreement, after notice and an opportunity to cure.

In the event the Company terminates Executive's employment for cause, the Company shall pay Executive's salary through the date of termination and any additional cash or equity compensation that would otherwise be payable for that calendar year and prior years and subsequent years shall automatically terminate and be forfeited.

(b) *Termination due to Change in Control.* If a Change in Control (as hereafter defined) should occur and the Executive either resigns or is terminated without cause within six (6) months prior to or within two (2) years after such Change in Control, the Company shall pay Executive all base salary, bonuses and other benefits that accrued prior to the effective date of the Change in Control and the following shall occur:

(i) Base Salary. The Company shall pay to Executive a lump sum equal to three (3) times Executive's annual base salary, as then in effect, on the date of consummation of the Change in Control.

(ii) Bonus. For a period of three years, the Company shall pay to Executive the bonus under Section 3(c) of the Agreement to which Executive would have been entitled if Executive had remained employed by the Company on the date the bonus became due and payable. Notwithstanding the foregoing, the total payments to be made by the Company to the Executive under Section 6(b)(i) and (ii) shall not exceed $1,000,000.

(iii) Effect on Stock Options. Any options granted under Section 3(h) that are unvested at the time of a Change in Control shall vest immediately and shall remain exercisable for one year following Executive's separation from the Company on the terms set forth in the applicable option agreement (including the cashless exercise feature).

(iv) Gross-Up Payment. If it is determined that any payment, benefit or distribution of any type that is made by the Company, any of its affiliates, or any person, in connection with a Change in Control or a termination of the Executive's employment thereafter, to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to excise taxes imposed by the Internal Revenue Code, including but not limited to Sections 409A and 4999 thereof, or any interest or penalties with respect to such excise tax (such excise tax and any such interest or penalties are collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive a one or more additional payments (a "Gross-Up Payment") in an amount reasonably determined to be equal to such Excise Tax. Payments under this Section are payable to the Executive even if the Executive is not eligible for severance benefits under this Agreement.

For purposes of this Section 6(b), "Change in Control" shall mean the occurrence of any of the following events: A person (or group) acquires, during a twelve (12)-month period, stock possessing fifty percent (50%) or more of the total voting power of the Company, or a majority of the members of the board of directors is replaced during any twenty-four (24)-month period by directors whose appointment or election is not endorsed by a majority of the Company's board of directors prior to the date of the appointment or election. If a person (or group) already owns at least fifty percent (50%) of the voting power, the acquisition of additional voting power shall not trigger a Change in Control under this paragraph.

6. Confidentiality, Non-Compete and Property Rights Agreement. Exhibit A to the Agreement is hereby deleted and replaced in its entirety by Exhibit A to this Amendment.

7. Ratification. Except as specifically amended hereby, all terms of the Agreement, including Exhibit A, as amended and restated, shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Amendment on this 14th day of October, 2019, effective as of October 1, 2019.

CLS LABS, INC.

By: /s/ Juan Carlos Santos
Juan Carlos Santos, Secretary

CLS HOLDINGS USA, INC.

By: /s/ Andrew Glashow
Andrew Glashow, President and COO

EXECUTIVE:

/s/ Jeffrey I. Binder
Jeffrey I. Binder

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment to Employment Agreement (hereinafter referred to as the "Amendment") is entered into by and between CLS Holdings USA, Inc., a Nevada corporation (hereinafter referred to as the "Company"), and Andrew Glashow (hereinafter referred to as 'Executive").

WHEREAS, the Company and the Executive entered into an Employment Agreement effective March 1, 2019, the initial term of which expires on February 28, 2021 (the "Agreement");

WHEREAS, the Company and the Executive desire to extend the term of the Agreement by one year instead of relying on the automatic one-year renewal provision in the Agreement;

WHEREAS, the Company desires to increase the Executive's base salary, effective as of October 1, 2019, to Two Hundred Thousand Dollars ($200,000.00) per annum;

WHEREAS, the Company and the Executive desire to amend the Agreement to change the terms of the bonus; and

WHEREAS, the Company desires to provide the Executive with certain benefits upon a change in control of the Company.

NOW THEREFORE, the Company and Executive hereby amend the Agreement as follows:

1. Term of Employment. The Agreement shall be extended for one (1) year commencing on March 1, 2021 and ending on February 28, 2022. Upon expiration of the term, the Agreement shall automatically renew for successive terms of one (1) year, unless, without limiting the application of Sections 5, 6 and 7 of the Agreement, either party, at least sixty (60) days prior to such renewal, gives the other party written notice of intent not to renew.

2. Base Salary. Section 3(a) of the Agreement shall be amended to increase Executive's base salary, effective as of October 1, 2019, to Two Hundred Thousand Dollars ($200,000.00) per annum, payable in installments according to the Company's normal payroll practices and less legal and applicable withholdings.

3. Bonus. Section 3(c) of the Agreement shall be replaced in its entirety to read as follows: "In addition to Executive's base compensation hereunder, Executive shall be entitled to receive, on an annual basis, a performance-based bonus equal to two percent (2%) of the Company's annual earnings before interest, taxes, depreciation and amortization ("EBITDA") up to a maximum annual cash compensation of $1 million including base salary. The bonus shall be payable sixty (60) days following the end of each calendar year during the term of this Agreement. As an express condition of Executive's receipt of the bonus, Executive must be employed with the Company on the last day of the applicable calendar year. Executive shall not be entitled to any partial or pro-rated bonus if Executive is not employed at the end of any calendar year during the term of this Agreement."

4. Stock Options and Restricted Stock. Section 3(h) of the Agreement shall be renumbered Section 3(i) and Section 3(i) of the Agreement shall be renumbered Section 3(j). New Section 3(h) shall read as follows:

"(h) **Stock Options**. (i) The Company shall grant to Executive, effective on the first day of each of the Company's fiscal years throughout the term of this Agreement, an option to purchase a number shares of the Company's common stock equal to 2% of the Company's annual EBITDA for the prior year (or portion thereof within the term of this Agreement), up to $42.5 million in annual EBITDA, and 4% of the Company's annual EBITDA in excess of $42.5 million, which option shall be exercisable at a price per share equal to the fair market value of one share of the common stock on the effective date of the grant (i.e., the first day of each fiscal year of the Company). The term of each option shall be five years. For example, if annual EBITDA was $1 million for the fiscal year, and the fair market value of the options on the first day of the Company's fiscal year was $0.10, the executive would receive options to purchase 200,000 shares (.02 x $1 million, divided by $0.10). The options shall be fully vested on the date of grant and shall include a cashless exercise provision. "Fair market value" of the Company's common stock shall be computed as follows: if the common stock is traded on the OTCBB or the pinks, the fair market value shall be the average bid price for the 40 trading days prior to the effective date of grant; if the common stock is traded on an exchange, including but not limited to Nasdaq or Amex, fair market value shall be the closing price on the day prior to the effective date of grant; if the common stock is not traded on any exchange or quotation system, the fair market value shall be determined by the board of directors of the Company using its reasonable judgment.

(ii) Except as set forth in Section 6(b), the options shall be extinguished, to the extent not exercised, if Executive is no longer employed by the Company for any reason. Each option shall be evidenced by an option agreement that contains these terms and other provisions generally applicable to the Company's stock option agreements."

5. Termination due to Change in Control. The heading of Section 6 of the Agreement shall be amended to read "Termination by Company for Cause or Termination due to Change in Control," and the existing language in Section 6 of the Agreement shall be deleted and replaced with the following language:

(a) *Termination for Cause.* The Company may terminate this Agreement, and Executive's employment, "for cause" at any time. As used herein, "for cause" shall mean any one of the following:

A. The willful breach or habitual neglect by Executive of his job duties and responsibilities after notice by the Company; or

B. Conviction of any felony that should cause Executive to be unfit for continued employment by the Company or prevent Executive from performing his duties hereunder; or

C. Commission of an act of "dishonesty," which act directly or indirectly involves the Company (an act of Executive shall not be deemed to be "dishonest" if Executive took such action in Executive's good faith belief that it was honest and in the best interest of the Company); or

D. Any act or omission deemed as grounds for termination of employees as set forth in the Company's personnel policies in existence at the time; or

E. A material breach of this Agreement, after notice and an opportunity to cure.

In the event the Company terminates Executive's employment for cause, the Company shall pay Executive's salary through the date of termination and any additional cash or equity compensation that would otherwise be payable for that calendar year and prior years and subsequent years shall automatically terminate and be forfeited.

(b) *Termination due to Change in Control.* If a Change in Control (as hereafter defined) should occur and the Executive either resigns or is terminated without cause within six (6) months prior to or within two (2) years after such Change in Control, the Company shall pay Executive all base salary, bonuses and other benefits that accrued prior to the effective date of the Change in Control and the following shall occur:

(i) Base Salary. The Company shall pay to Executive a lump sum equal to three (3) times Executive's annual base salary, as then in effect, on the date of consummation of the Change in Control.

(ii) Bonus. For a period of three years, the Company shall pay to Executive the bonus under Section 3(c) of the Agreement to which Executive would have been entitled if Executive had remained employed by the Company on the date the bonus became due and payable. Notwithstanding the foregoing, the total payments to be made by the Company to the Executive under Section 6(b)(i) and (ii) shall not exceed $1,000,000.

(iii) Effect on Stock Options. Any options granted under Section 3(h) that are unvested at the time of a Change in Control shall vest immediately and shall remain exercisable for one year following Executive's separation from the Company on the terms set forth in the applicable option agreement (including the cashless exercise feature).

(iv) Gross-Up Payment. If it is determined that any payment, benefit or distribution of any type that is made by the Company, any of its affiliates, or any person, in connection with a Change in Control or a termination of the Executive's employment thereafter, to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to excise taxes imposed by the Internal Revenue Code, including but not limited to Sections 409A and 4999

(iv) thereof, or any interest or penalties with respect to such excise tax (such excise tax and any such interest or penalties are collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive a one or more additional payments (a "Gross-Up Payment") in an amount reasonably determined to be equal to such Excise Tax. Payments under this Section are payable to the Executive even if the Executive is not eligible for severance benefits under this Agreement.

For purposes of this Section 6(b), "Change in Control" shall mean the occurrence of any of the following events: A person (or group) acquires, during a twelve (12)-month period, stock possessing fifty percent (50%) or more of the total voting power of the Company, or a majority of the members of the board of directors is replaced during any twenty-four (24)-month period by directors whose appointment or election is not endorsed by a majority of the Company's board of directors prior to the date of the appointment or election. If a person (or group) already owns at least fifty percent (50%) of the voting power, the acquisition of additional voting power shall not trigger a Change in Control under this paragraph.

6. Ratification. Except as specifically amended hereby, all terms of the Agreement, including Exhibit A thereto, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment on this 14th day of October, 2019, effective as of October 1, 2019.

CLS HOLDINGS USA, INC.	**EXECUTIVE**
By: /s/ Jeffrey Binder	/s/ Andrew Glashow
Jeffrey Binder, Chairman and CEO	Andrew Glashow

EXHIBIT 31.1

CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey I. Binder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CLS Holdings USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control for financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 15, 2019

/s/ Jeffrey I. Binder
Jeffrey I. Binder
Chairman and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregg Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CLS Holdings USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control for financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. As the registrant certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 15, 2019

/s/ Gregg Carlson
Gregg Carlson, Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

Certification by the Principal Executive Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Jeffrey I. Binder, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended August 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2019

/s/ Jeffrey I. Binder
Jeffrey I. Binder
Chairman and Chief Executive Officer
(Principal Executive Officer)

A signed original copy of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification by the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Gregg Carlson, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended August 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2019

/s/ Gregg Carlson
Gregg Carlson, Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original copy of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.