
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 **February 28, 2018**

or

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

Commission File Number: **333-174705**

CLS HOLDINGS USA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

45-1352286

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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: 48,482,972 shares of \$0.0001 par value common stock outstanding as of April 2, 2018.

CLS HOLDINGS USA, INC.

FORM 10-Q
Quarterly Period Ended February 28, 2018

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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 attract and retain key personnel, and our ability to protect 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 annual, quarterly and special reports and other information with the Securities and Exchange Commission (“SEC”) that can be inspected and copied at the public reference facility maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549-0405. Information regarding the public reference facilities may be obtained from the SEC by telephoning 1-800-SEC-0330. The Company’s filings are also available through the SEC’s Electronic Data Gathering Analysis and Retrieval System, which is publicly available through the SEC’s website (www.sec.gov). Copies of such materials may also be obtained by mail from the public reference section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549-0405 at prescribed rates.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	February 28, 2018	May 31, 2017
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,733	\$ 78,310
Prepaid expenses	12,598	1,410
Other current assets	23,431	-
Total current assets	58,762	79,720
Investment	2,050,000	-
Security deposit	-	50,000
Property, plant and equipment, net of accumulated depreciation of \$2,453 and \$1,784	221	890
Intangible assets, net of accumulated amortization of \$1,152 and \$828	1,006	1,330
Total assets	<u>\$ 2,109,989</u>	<u>\$ 131,940</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 671,807	\$ 581,765
Accrued compensation, related party	108,834	53,750
Notes Payable	410,000	-
Due to related party	17,930	17,930
Accrued interest	9,602	20,171
Accrued interest, related party	193,988	106,022
Notes payable, related parties	152,174	699,208
Convertible notes payable, net of discount of \$826,775 and \$57,644	141,225	252,356
Convertible notes payable, related party, net of discount of \$98,382 and \$0	114,803	-
Derivative liability	974,175	95,276
Total current liabilities	2,794,538	1,826,478
Noncurrent liabilities		
Convertible notes payable, related parties, net of discount of \$623,847 and \$0	615,574	192,000
Total Liabilities	3,410,112	2,018,478
Commitments and contingencies		
	-	-
Stockholder's equity		
Common stock, \$0.0001 par value; 250,000,000 shares authorized; 43,186,944 and 32,852,944 shares issued and outstanding at February 28, 2018 and May 31, 2017, respectively	4,319	3,286
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	13,224,661	7,032,836
Common stock subscriptions receivable	(69,102)	-
Common stock subscribed	123,950	68,950
Accumulated deficit	(14,583,951)	(8,991,610)
Total stockholder's equity (deficit)	(1,300,123)	(1,886,538)
Total liabilities and stockholders' equity (deficit)	<u>\$ 2,109,989</u>	<u>\$ 131,940</u>

See accompanying notes to these financial statements.

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

	For the Three Months Ended February 28, 2018	For the Three Months Ended February 28, 2017	For the Nine Months Ended February 28, 2018	For the Nine Months Ended February 28, 2017
Revenue	\$ -	\$ -	\$ -	\$ -
Cost of goods sold	-	-	-	-
Gross margin	-	-	-	-
Selling, general and administrative expenses	838,047	144,204	1,136,468	482,071
Professional fees	376,924	99,867	695,086	603,098
Total operating expenses	1,214,971	244,071	1,831,554	1,085,169
Operating loss	(1,214,971)	(244,071)	(1,831,554)	(1,085,169)
Other (income) expense:				
Interest expense	1,434,314	381,149	2,316,145	1,395,511
Gain on settlement of debt	-	-	(3,480)	-
Loss on modification of debt	-	-	29,145	33,334
Loss on note exchange	-	-	404,082	-
Loss on extinguishment of debt	-	-	989,032	-
Change in fair value of derivative	(148,227)	(244,848)	25,863	(393,114)
Total other expense	1,286,087	136,301	3,760,787	1,035,731
Income (Loss) before income taxes	(2,501,058)	(380,372)	(5,592,341)	(2,120,900)
Income tax expense	-	-	-	-
Net income (loss)	<u>\$ (2,501,058)</u>	<u>\$ (380,372)</u>	<u>\$ (5,592,341)</u>	<u>\$ (2,120,900)</u>
Net income (loss) per share - basic	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>	<u>\$ (0.16)</u>	<u>\$ (0.10)</u>
Net income (loss) per share - diluted	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>	<u>\$ (0.16)</u>	<u>\$ (0.10)</u>
Weighted average shares outstanding - basic	<u>39,126,944</u>	<u>20,465,360</u>	<u>35,654,299</u>	<u>20,388,033</u>
Weighted average shares outstanding - diluted	<u>39,126,944</u>	<u>20,465,360</u>	<u>35,654,299</u>	<u>20,388,033</u>

See accompanying notes to these financial statements.

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

	For the Nine Months Ended February 28, 2017	For the Nine Months Ended February 28, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (5,592,341)	\$ (2,120,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	804	804
Change in fair value of derivative	25,863	(393,114)
Share-based compensation	55,000	-
Warrants issued to placement agent	610,414	-
Loss on modification of debt	29,145	33,334
(Gain) loss on note exchange	404,082	-
Loss on extinguishment of debt	989,032	-
Gain on settlement of debt	(3,480)	-
Amortization of debt discounts	1,391,110	1,197,998
Amortization of deferred financing costs	22,569	-
Depreciation and amortization expense	993	993
Changes in assets and liabilities:		
Other assets	50,000	-
Prepaid expenses	(11,188)	(16,049)
Other current assets	(46,000)	-
Accounts payable and accrued expenses	937,895	137,699
Accrued compensation	167,584	112,500
Due to related parties	-	-
Accrued interest, related party	87,966	131,042
Deferred rent	(49,565)	-
Accrued interest	21,045	16,402
Net cash used in operating activities	(909,072)	(899,291)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for investment in Oasis LLCs	(2,050,000)	-
Payment for construction in progress	-	(35,013)
Net cash used in investing activities	(2,050,000)	(35,013)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party convertible notes payable	601,070	150,000
Proceeds from related party notes payable	-	838,000
Proceeds from convertible notes	880,000	-
Proceeds from notes payable	410,000	-
Principal payments on related party notes payable	-	(61,000)
Repayments of convertible notes payable	-	(75,000)
Proceeds from sale of equity	1,012,425	-
Net cash provided by financing activities	2,903,495	852,000
Net increase in cash and cash equivalents	(55,577)	(82,304)
Cash and cash equivalents at beginning of period	78,310	88,244
Cash and cash equivalents at end of period	\$ 22,733	\$ 5,940
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Convertible note issued for unpaid accrued salary	\$ 112,500	\$ 250,000
Related party notes payable reclassified as related party convertible notes payable	\$ 1,116,856	\$ 222,750
Beneficial conversion feature on convertible notes payable	\$ 1,681,946	\$ -
Note payable exchanged for common stock	\$ 936,478	\$ 518,720
Shares issued for settlement of accounts payable	\$ 6,000	\$ -
Extinguishment of debt	\$ -	\$ 254,114
Discount on convertible notes payable due to derivative	\$ 1,321,862	\$ -
Common stock issued for conversion of notes payable	\$ -	\$ 222,657

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2018
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

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 patent allowance 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 proprietary process or otherwise earned any revenues. The Company plans to generate revenues through licensing, fee-for-service and joint venture arrangements related to its proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

The Company has adopted a fiscal year end of May 31st.

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.

Principals of Consolidation

The accompanying consolidated financial statements include the accounts of CLS Holdings USA, Inc., and its wholly owned operating subsidiaries, CLS Labs, Inc. and CLS Labs Colorado, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

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.

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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 \$22,733 and \$78,310 as of February 28, 2018 and May 31, 2017, respectively.

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 the estimated useful lives. Computer equipment is being depreciated over a three-year period.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts, the balances of which at times may exceed federally insured limits. The Company continually monitors its banking relationships and consequently has not experienced any losses in such accounts.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The Company incurred no advertising and marketing costs for the three and nine months ended February 28, 2018 and 2017.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred no research and development costs for the three and nine months ended February 28, 2018 and 2017, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the establishment of deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent deferred tax assets may not be recoverable after consideration of the future reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income.

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 amount of the Company's cash and cash equivalents, note receivable, notes payable, accounts payable and accrued expenses, none of which is held for trading, approximates 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 sheet at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheet with changes in fair value recognized during the 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 11).

Revenue Recognition

For revenue from product sales, the Company recognizes revenue using four basic criteria that must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) is based on management's judgment regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

The Company has not generated revenue to date.

Basic and Diluted 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 is computed based on the weighted average number of shares of common stock outstanding during the period.

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 and nine months ended February 28, 2018 and 2017.

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 assesses 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

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

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 will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted. The Company is currently evaluating the potential impact of the update on its financial statements.

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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.

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 becomes effective for the Company on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying unaudited condensed consolidated financial statements.

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 \$14,583,951 as of February 28, 2018. Further losses are 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. Management intends to finance operating costs over the next twelve months with loans, the proceeds from the sale of securities, and/or revenues from operations. 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 – Prepaid Expenses

Prepaid expenses consisted of the following at February 28, 2018 and May 31, 2017:

	February 28, 2018	May 31, 2017
Prepaid legal fees	\$ 1,410	\$ 1,410
Prepaid expenses	11,188	-
Total	\$ 12,598	\$ 1,410

Note 4 – Security Deposit

The Company had a security deposit in the amount of \$0 and \$50,000 at February 28, 2018 and May 31, 2017, respectively. This amount consisted of a deposit to secure office and warehouse space. In August of 2017, the Company received a demand letter from the 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; during the six months ended November 30, 2017, the Company wrote-off the security deposit in the amount of \$50,000.

Note 5 – Property, Plant and Equipment

Property, plant and equipment consisted of the following at February 28, 2018 and May 31, 2017.

	February 28, 2018	May 31, 2017
Computer equipment	\$ 2,674	\$ 2,674
Property and equipment, gross	2,674	2,674
Less: accumulated depreciation	(2,453)	(1,784)
Property and equipment, net	<u>\$ 221</u>	<u>\$ 890</u>

Depreciation expense totaled \$223 and \$223 for the three months ended February 28, 2018 and 2017 respectively. Depreciation expense totaled \$669 and \$669 for the nine months ended February 28, 2018 and 2017 respectively.

Note 6 – Deferred Financing Costs

During the nine months ended February 28, 2018, the Company had deferred financing costs of \$45,700 related to a convertible notes payable. During the three and nine months ended February 28, 2018, the Company amortized \$19,450 and \$22,569 of these deferred costs. As of February 28, 2018, the Company had \$23,431 of deferred financing costs remaining.

Note 7 – Intangible Assets

Intangible assets consisted of the following at February 28, 2018 and May 31, 2017.

	February 28, 2018	May 31, 2017
Domain name	\$ 2,158	\$ 2,158
	2,158	2,158
Less: accumulated amortization	(1,152)	(828)
Intangible assets, net	<u>\$ 1,006</u>	<u>\$ 1,330</u>

Total amortization expense charged to operations for the three months ended February 28, 2018 and 2017 was \$108 and \$108, respectively. Total amortization expense charged to operations for the nine months ended February 28, 2018 and 2017 was \$324 and \$324, respectively. The domain name is being amortized over a period of 60 months.

Note 8 – Investment in Oasis LLCs

On December 4, 2017, the Company and Alternative Solutions, LLC (“Alternative Solutions”) entered into a Membership Interest Purchase Agreement (the “Acquisition Agreement”) for the Company to acquire the outstanding equity interests in three subsidiaries (collectively, the “Oasis LLCs”), Serenity Wellness Center LLC d/b/a/ Oasis Medical Cannabis, Serenity Wellness Growers LLC, and Serenity Wellness Products LLS, from 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 on February 5, 2018, for an initial 10% of each of the subsidiaries. As of February 28, 2018, the Company had a total investment of \$2,050,000 in the Oasis LLCs.

The closing consideration that the Company must pay to acquire the remaining 90% of the subsidiaries, is equal to cash in the amount of \$6,200,000, a \$4.0 million promissory note due in December 2019, and \$6,000,000 in shares of the Company’s common stock.

The number of shares shall equal \$6,000,000 divided by the lower of \$1.00 or the conversion price to receive one share of the Company’s common stock in its next equity offering that it commences in 2018 that exceeds \$6 million, multiplied by 80%. The promissory note will be secured by a first priority security interest over the assets of each of the Oasis LLCs, including the Company’s 10% equity interest in the three subsidiaries, and the Company shall deliver to Alternative Solutions a confession of judgment that will become effective in the event of any event of default under the promissory note.

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Assuming the Company closes on the acquisition, in May 2020, Alternative Solutions will be entitled to a \$1,000,000 payment from the Company, 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 sale, assignment, transfer, pledge or other disposition of any interest in the Oasis LLCs or Alternative Solutions is ineffective unless approved in advance by the State of Nevada and any municipality in which the three subsidiaries' operations is licensed.

Note 9 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at February 28, 2018 and May 31, 2017.

	February 28, 2018	May 31, 2017
Trade payables	\$ 575,546	\$ 497,213
Accrued payroll and related liabilities	40,562	34,987
Deferred rent liability	55,699	49,565
Total accounts payable and accrued liabilities	<u>\$ 671,807</u>	<u>\$ 581,765</u>

Note 10 – Related Party Transactions

As of February 28, 2018 and May 31, 2017, the Company owed the amount of \$37,500 and \$37,500, respectively, to Jeffrey Binder, its Chief Executive Officer, for accrued salary. For the three and nine months ended February 28, 2018, unpaid accrued salary in the amount of \$37,500 and \$112,500, respectively, was transferred to a convertible promissory note due to Mr. Binder (see note 9).

As of February 28, 2018 and May 31, 2017, the Company owed the amount of \$14,584 and \$0, respectively, to David Lamadrid, its President and Chief Financial Officer.

As of February 28, 2018 and May 31, 2017, the Company had accrued salary due to Alan Bonsett, a former officer of the Company prior to his October 1, 2017 separation, in the amount of \$37,500 and \$0, respectively.

As of February 28, 2018 and May 31, 2017, 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.

As of February 28, 2018 and May 31, 2017, the Company had related party payables in the amount of \$17,930 due to officers and directors related to expenses paid on behalf of the Company. The Company imputed interest at the rate of 6% per annum on these liabilities, and recorded imputed interest expense on these liabilities in the amounts of \$265 and \$804 during the three and nine months ended February 28, 2018 and 2017, respectively. These interest accruals were charged to additional paid-in capital.

Related Party Notes Payable

The Company has convertible notes payable outstanding to Jeffrey Binder, an officer and director, and to Newcan Investment Partners, LLC, an entity that is wholly owned by Frank Koretsky, a director (see note 10).

Note 11 – Notes Payable

Notes Payable

On February 7, 2018, the Company issued a note payable to Todd Blatt in the amount of \$210,000. This note accrues interest at a rate of 6% per annum and is due on February 7, 2019. During the three months ended February 28, 2018, the Company accrued interest in the amount of \$725 on this note.

On February 7, 2018, the Company issued a note payable to AJG Group in the amount of \$200,000. This note accrues interest at a rate of 6% per annum and is due on February 7, 2019. During the three months ended February 28, 2018, the Company accrued interest in the amount of \$690 on this note.

Related Party Convertible 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 Agreement. 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 twelve months 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.

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The following tables summarize the Company's loan balances at February 28, 2018 and May 31, 2017:

	<u>February 28,</u> <u>2018</u>	<u>May 31,</u> <u>2017</u>
Notes payable to Jeffrey Binder, an officer and director of the Company, for advances to fund operations (the "Binder Funding Notes"). The Binder Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Binder Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2016, Mr. Binder advanced a total of \$95,250 to the Company under the Binder Funding Notes; during the year ended May 31, 2016, \$92,500 of this amount was transferred out of the Binder Funding Notes and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 1 and 2 below). During the twelve months ended May 31, 2016, the Company accrued interest in the amount of \$1,308 on the Binder Funding Notes. In July 2016, the remaining principal balance of \$2,750 in the Binder Funding Notes was transferred to a new Convertible Note payable to Mr. Binder (the "Binder Convertible Note 3").		
During the twelve months ended May 31, 2017, Mr. Binder advanced a total of \$145,850 to the Company under the Binder Funding Notes. Also during the year ended May 31, 2017, Mr. Binder loaned the Company an additional \$49,700; which was credited to the Binder Funding Notes. Also during the year ended May 31, 2017, principal in the amount of \$59,750 and accrued interest in the amount of \$813 was transferred out of the Binder Funding Notes and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 3 and 4 below). Also during the year ended May 31, 2017, the Company made principal payments in the aggregate amount of \$61,000 under the Binder Funding Notes. During the year ended May 31, 2017, the Company accrued interest in the amount of \$1,910 on the Binder Funding Notes. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Binder Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of \$0.25 per share.		
During the three months ended August 31, 2017, Mr. Binder advanced a total of \$47,767 to the Company under the Binder Funding Notes. During the three months ended August 31, 2017, interest in the amount of \$2,466 was accrued on the Binder Funding Notes. Also during the three months ended August 31, 2017, principal in the amount of \$77,550 and accrued interest in the amount of \$3,630 were transferred from the Binder Funding Notes to a new convertible note payable to Mr. Binder (the "Binder Convertible Note 5"), and principal in the amount of \$47,767 was transferred from the Binder Funding Notes to a new Convertible Note payable to Mr. Binder (the "Binder Convertible Note 6").		
During the three months ended November 30, 2017, Mr. Binder advanced a total of \$112,862 to the Company under the Binder Funding Notes. A discount in the amount of \$70,790 related to the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense. During these three months ended November 30, 2017, interest in the amount of \$642 was accrued on the Binder Funding Notes. Also during the three months ended November 30, 2017, principal in the amount of \$27,021 and accrued interest in the amount of \$122 was transferred from the Binder Funding Notes to a new convertible note payable to Mr. Binder (the "Binder Convertible Note 7").		
Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount in the amount of \$35,023 related to the revaluation of the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During three months ended February 28, 2018, Mr. Binder advanced a total of \$194,191 to the Company under the Binder Funding Notes. During the three months ended February 28, 2018, interest in the amount of \$2,433 was accrued on the FINDER Funding Notes. A discount in the amount of \$194,191 related to the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense. Also, during the three months ended February 28, 2018, principal in the amount of \$127,860 and accrued interest in the amount of \$1,437 was transferred from the Binder Funding Notes to a new convertible note payable to Mr. Binder (the "Binder Convertible Note 8").	\$ 152,174	\$ 77,550

	<u>February 28,</u> <u>2018</u>	<u>May 31,</u> <u>2017</u>
Note payable to Frank Koretsky, a director of the Company, for advances to fund operations (the “Koretsky Funding Notes”). The Koretsky Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Koretsky Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, Mr. Koretsky advanced \$550,000 to the Company under the Koretsky Funding Notes. Also during the twelve months ended May 31, 2017, \$210,000 of principal and \$1,346 of accrued interest was transferred out of the Koretsky Funding Notes and used to fund a new convertible notes payable to Mr. Koretsky. Also during the twelve months ended May 31, 2017, principal and accrued interest in the amounts of \$410,000 and \$4,046, respectively, were transferred out of the Koretsky Funding Notes and contributed to the Newcan Funding Notes (see Newcan Funding Notes, below).	-	-
Notes payable to Newcan Investment Partners, LLC (“Newcan”), an entity owned by Frank Koretsky, a director of the Company, for advances to fund operations (the “Newcan Funding Notes”). The Newcan Funding Notes bear interest at a rate of 10%. The Newcan Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, principal and interest in the amount of \$410,000 and \$4,046, respectively, were transferred from the Koretsky Funding Notes into the Newcan Funding Notes. Also during the year ended May 31, 2017, Newcan advanced \$791,658 to the Company under the Newcan Funding Notes. Also during the year ended May 31, 2017, principal in the amount of \$460,000 and accrued interest in the amount of \$7,747, respectively, were transferred from the Newcan Finding Notes and used to fund the Newcan Convertible Notes 2 and 3 (see below); also during the year ended May 31, 2017, principal and accrued interest in the amounts of \$120,000 and \$2,121, respectively, were transferred out of the Newcan Funding Notes in order to fund the Newcan Convertible Note 3; see below. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of \$13,434 on this note. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Newcan Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of \$0.25 per share.		
During the three months ended August 31, 2017, Newcan advanced \$70,000 to the Company under the Newcan Funding Notes. Also during the three months ended August 31, 2017, interest in the amount of \$14,964 was accrued on the Newcan Funding Notes. Also during the three months ended August 31, 2017, principal in the amount of \$621,658 and accrued interest in the amount of \$23,856 were transferred to a new Convertible Note payable to Newcan (the “Newcan Convertible Note 4”), and principal in the amount of \$70,000 was transferred to a new Convertible Note payable to Newcan (the “Newcan Convertible Note 5”).		
During the three months ended November 30, 2017, Newcan advanced \$45,000 to the Company under the Newcan Funding Notes. Also during the three months ended November 30, 2017, interest in the amount of \$247 was accrued on the Newcan Funding Notes. A discount in the amount of \$58,600 related to the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense. Also, during the three months ended November 30, 2017, principal in the amount of \$30,000 and accrued interest in the amount of \$148 were transferred to a new Convertible Notes payable to Newcan (the “Newcan Convertible Note 6”).		
Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount in the amount of \$6,120 related to the revaluation of the beneficial conversion feature of the Newcan Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During the three months ended February 28, 2018, Newcan advanced \$100,000 to the Company under the Newcan Funding Notes. Also during the three months ended February 28, 2018, interest in the amount of \$915 was accrued on the Newcan Funding Notes. A discount in the amount of \$70,400 related to the beneficial conversion feature of the Newcan Funding Notes was charged to additional paid-in capital and amortized to interest expense. Also, during the three months ended February 28, 2018, principal in the amount of \$115,000 and accrued interest in the amount of \$1,014 were transferred to a new Convertible Notes payable to Newcan (the “Newcan Convertible Note 6”).	-	621,658
Total – Demand Convertible Notes Payable, Related Parties	<u>\$ 152,174</u>	<u>\$ 699,208</u>
Current portion	\$ 152,174	\$ 699,208
Long term portion	\$ -	\$ -

	<u>February 28, 2018</u>	<u>May 31, 2017</u>
<p>Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated March 31, 2017 (the “Binder Convertible Note 4”). The Binder Convertible Note 4 was funded with the conversion of \$112,500 of unpaid accrued salary due to Mr. Binder and \$47,000 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of \$19,938 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one “Unit” for each \$0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of \$0.25 per share.</p> <p>Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted, and principal in the amount of \$87,500 was converted into a total of 350,000 shares of common stock. The remaining principal balance of \$72,000 will be due in eight quarterly payments in the amount of \$9,000 commencing July 1, 2018; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of \$2,666 on the Binder Convertible Note 4.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount was recorded in the amount of \$29,376 related to the revaluation of the beneficial conversion feature of the Binder Convertible Note 4; \$2,628 of this discount was amortized to interest expense during the three months ended February 28, 2018..</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$1,775 and \$5,385 was accrued on Binder Convertible Note 4, respectively.</p>	\$ 72,000	\$ 72,000
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated March 31, 2017 (the “Newcan Convertible Note 3”). The Newcan Convertible Note 3 was funded with the conversion of \$120,000 of advances made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of \$15,000 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one “Unit” for each \$0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of \$0.25 per share. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of \$2,005 on the Koretsky Convertible Note 4. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount was recorded in the amount of \$48,960 related to the revaluation of the beneficial conversion feature of the Newcan Convertible Note 1; \$4,379 of this discount was amortized during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$2,959 and \$8,975 was accrued on Newcan Convertible Note 3, respectively.</p>	120,000	120,000

	<u>February 28, 2018</u>	<u>May 31, 2017</u>
<p>Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated August 23, 2017 in the original principal amount of \$115,050 (the “Binder Convertible Note 5”). The Binder Convertible Note 5 was funded with the conversion of \$37,500 of unpaid accrued salary due to Mr. Binder and \$77,550 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight principal payments in the amount of \$14,381 will become due; subsequent principal payments will become due on the first day of each April, July, October, and January until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$46,020 on the Binder Convertible Note 5 related to the value of the beneficial conversion feature at the time of issuance; \$3,824 and \$4,160 of this discount was amortized during the three and six months ended November 30, 2017, respectively. During the three and six months ended November 30, 2017, interest in the amount of \$2,868 and \$3,121 was accrued on Binder Convertible Note 5, respectively, and \$3,630 of accrued interest was transferred from the Binder Funding Notes.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$41,859 was charged to interest expense. A new discount was recorded in the amount of \$46,940 related to the value of the repriced conversion feature of Binder Convertible Note 5; \$4,199 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$2,837 and \$5,957 was accrued on Binder Convertible Note 5, respectively.</p>	115,050	-
<p>Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated August 23, 2017 in the original principal amount of \$72,767 (the “Binder Convertible Note 6”). The Binder Convertible Note 6 was funded with the conversion of \$25,000 of unpaid accrued salary due to Mr. Binder and \$47,767 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight principal payments in the amount of \$9,096 will become due; subsequent principal payments will become due on the first day of each April, July, October, and January until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$29,107 on the Binder Convertible Note 6 related to the value of the beneficial conversion feature at the time of issuance; \$2,419 and \$2,632 of this discount was amortized during the three and six months ended November 30 2017, respectively. During the three and six months ended November 30, 2017, interest in the amount of \$1,814 and \$1,974 was accrued on Binder Note 6, respectively.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$26,475 was charged to interest expense. A new discount was recorded in the amount of \$29,689 related to the value of the repriced conversion feature of Binder Convertible Note 6; \$2,656 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$1,794 and \$3,768 was accrued on Binder Convertible Note 6, respectively.</p>	72,767	-

	February 28, 2018	May 31, 2017
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated August 23, 2017 in the original principal amount of \$621,658 (the “Newcan Convertible Note 4”). The Newcan Convertible Note 4 was funded with the conversion of \$621,658 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight principal payments in the amount of \$69,074 will become due; subsequent principal payments will become due on the first day of each April, July, October, and January until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$248,663 on the Newcan Convertible Note 4 related to the value of the beneficial conversion feature at the time of issuance.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$226,181 was charged to interest expense. A new discount was recorded in the amount of \$253,636 related to the value of the repriced conversion feature of Newcan Convertible Note 4; \$22,687 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$15,239 and \$32,190 was accrued on Newcan Convertible Note 4, respectively.</p>	621,658	-
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated August 23, 2017 in the original principal amount of \$70,000 (the “Newcan Convertible Note 5”). The Newcan Convertible Note 5 was funded with the conversion of \$70,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight principal payments in the amount of \$8,750 will become due; subsequent principal payments will become due on the first day of each April, July, October, and January until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$28,000 on the Newcan Convertible Note 5 related to the value of the beneficial conversion feature at the time of issuance.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$25,468 was charged to interest expense. A new discount was recorded in the amount of \$28,560 related to the value of the repriced conversion feature of Newcan Convertible Note 5; \$2,555 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$1,726 and \$3,625 was accrued on Newcan Convertible Note 5, respectively.</p>	70,000	-

	February 28, 2018	May 31, 2017
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated October 9, 2017 in the original amount of \$30,000 (the “Newcan Convertible Note 6”). The Newcan Convertible Note 6 was funded with the conversion of \$30,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until January 2, 2019, at which time all accrued interest becomes due and payable. Commencing on April 1, 2019, the first of eight principal payments in the amount of \$3,750 will become due; subsequent principal payments will become due on the first day of each July, October, January and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$15,808 on the Newcan Convertible Note 6 related to the value of the beneficial conversion feature at the time of issuance.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$11,430 was charged to interest expense. A new discount was recorded in the amount of \$12,240 related to the value of the repriced conversion feature of Newcan Convertible Note 6; \$1,095 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$740 and \$1,167 was accrued on Newcan Convertible Note 6, respectively.</p>	30,000	-
<p>Unsecured convertible note issued to Jeffery Binder, an officer and director of the Company, dated October 9, 2017 in the original principal amount of \$39,521 (the “Binder Convertible Note 7”). The Binder Convertible Note 7 was funded with the conversion of \$12,500 of unpaid accrued salary due to Mr. Binder and \$27,021 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until January 2, 2019, at which time all accrued interest becomes due and payable. Commencing April 1, 2019, the first of eight principal payments in the amount of \$4,940 will become due, subsequent payments will become due on the first day of each July, October, January and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.25 converted. The Company recognized a discount of \$12,000 on the Binder Convertible Note 7 related to the value of the beneficial conversion feature at the time of issuance.</p> <p>Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share, and the discount balance in the amount of \$15,058 was charged to interest expense. A new discount was recorded in the amount of \$16,125 related to the value of the repriced conversion feature of Binder Convertible Note 7; \$1,442 of this discount was amortized to interest expense during the three months ended February 28, 2018.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$974 and \$1,538 was accrued on Binder Convertible Note 7, respectively.</p>	39,521	-

	<u>February 28,</u> <u>2018</u>	<u>May 31,</u> <u>2017</u>
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated, January 5, 2018 in the original amount of \$115,000 (the “Newcan Convertible Note 7”). The Newcan Convertible Note 7 was funded with the conversion of \$115,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2019, at which time all of the accrued interest becomes due and payable. Commencing on July 1, 2019, the first of eight principal payments in the amount of \$14,375 will become due; subsequent principal payments will become due on the first day of each October, January, April and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.3125 converted. The Company recognized a discount of \$115,000 on the Newcan Convertible Note 7 related to the value of the beneficial conversion feature at the time of issuance. During the three months ended February 28, 2018, the Company amortized \$5,254 of this discount to interest expense.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$1,701 was accrued on the Newcan Convertible Note 7.</p>	115,000	-
<p>Unsecured convertible note issued to Jeffery Binder, an officer and director of the Company, dated January 5, 2018 in the original principal amount of \$165,360 (the “Binder Convertible Note 8”). The Binder Convertible Note 8 was funded with the conversion of \$37,500 of unpaid accrued salary due to Mr. Binder and \$127,860 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Commencing July 1, 2019, the first of eight principal payments in the amount of \$20,670 will become due; subsequent payments will become due on the first day of each October, January, April and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.3125 converted. The Company recognized a discount of \$165,360 on the Binder Convertible Note 8 related to the value of the beneficial conversion feature at the time of issuance. During the three months ended February 28, 2018, the Company amortized \$7,555 of this discount to interest expense.</p> <p>During the three and nine months ended February 28, 2018, interest in the amount of \$2,446 and \$2,446 was accrued on Binder Convertible Note 8, respectively.</p>	165,360	-
<p>Convertible promissory note payable to David Lamadrid (the “Lamadrid Note”) dated February 20, 2018 in the principal amount of \$31,250 and bearing interest at a rate of 8% per annum. The Lamadrid Note is due eighteen months from the date of issue. Mr. Lamadrid may, 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. The Lamadrid Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Lamadrid Note will be reset to such lower price. The Company recognized a discount of \$31,250 on the Lamadrid Note related to the beneficial conversion feature at the time of issuance. During the three months ended February 28, 2018, \$458 of this discount was charged to operations. During the three months ended February 28, 2018, the Company accrued interest in the amount of \$55 on this note.</p>	31,250	-
Total – Convertible Notes Payable, Related Parties	\$ 1,452,606	\$ 192,000
Less: Discount	<u>(722,229)</u>	<u>-</u>
Convertible Notes Payable, Related Parties, Net of Discounts	<u>\$ 730,377</u>	<u>\$ 192,000</u>
Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion	\$ 114,803	\$ -
Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion	615,574	192,000

**February 28,
2018**

**May 31,
2017**

Convertible promissory note issued to an unaffiliated third party due April 29, 2018 (the “April 2015 Note”). During the twelve months ended May 31, 2015, the lender loaned the Company the amount of \$200,000 pursuant to this note. The April 2015 Note bears interest at a rate of 15% per annum. On the first anniversary of this note, the all then accrued interest became due. Thereafter, the Company is required to make eight equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 until paid in full. The note and any accrued unpaid interest is convertible into common stock of the Company. For each dollar converted, the note holder shall receive two shares of common stock and one three-year warrant to purchase 1.33 shares of common stock at \$0.75 per share. The Company recognized a discount of \$200,000 on the April 2015 Note related to the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, \$66,667 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of \$30,082 on this note. During the year ended May 31, 2017, the Company repaid principal in the amount of \$100,000 and interest in the amount of \$53,837 on this note. Also during the year ended May 31, 2017, the Company charged \$100,545 of the discount to operations, and accrued interest in the amount of \$22,440 on the April 2015 Note.

On September 20, 2017, the Company entered into an Exchange Agreement, whereby it agreed to exchange the April 2015 Note for 1,500,000 shares of its common stock. The holder of the April 2015 Note had previously sold it for \$105,219, which represented the balance due by the Company, to StarForce Media, Inc., an entity that is not affiliated with the Company. The Company recognized a loss on this exchange in the amount of \$404,082, which was charged to operations during the three months ended November 30, 2017. The Company also expensed the remaining discount in the amount of \$18,155 to interest expense during the three months ended November 30, 2017.

During the three and nine months ended February 28, 2018 the Company accrued interest in the amount of \$ 0 and \$4,603, respectively, on the April 2015 Note.

\$ - \$ 100,000

Convertible promissory note payable to Old Main Capital, LLC (“Old Main”) dated March 18, 2016 and bearing interest at a rate of 8% (the “8% Note”). The 8% Note was issued for Old Main’s commitment to enter into an equity line transaction with the Company and prepare all of the related transaction documents. Old Main may, at its option, convert all or a portion of the note and accrued but unpaid interest into shares of common stock at a conversion price of \$1.07 per share (post Reverse-Split) (the “8% Fixed Conversion Price”). The 8% Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the 8% Fixed Conversion Price (the “8% Base Conversion Price”), other than certain exempt issuances. In such an instance, the 8% Fixed Conversion Price will be lowered to match the 8% Base Conversion Price. The shares underlying the 8% Note are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after this registration statement becomes effective, the Company must begin to redeem 1/6th of the face amount of the note and any accrued but unpaid interest on a monthly basis. Such amortization payment may be made, at its option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) \$1.07 (post Reverse-Split) or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. The Company recognized a discount of \$172,108 on the value of the embedded derivative.

On November 28, 2016, the 8% Note was amended converting the note from an installment note to a “balloon” note, with all principal and accrued interest due on March 18, 2017. In addition, the Fixed Conversion Price was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date. The November 28, 2016 amendment required an extinguishment analysis of the 8% Note resulting in gain on extinguishment of debt in the amount of \$81,496 for the nine months ended February 28, 2017. The gain on extinguishment of debt was included in additional paid-in capital at February 28, 2017. The 8% Note was revalued as of the November 28, 2016 amendment and the Company recognized a discount of \$169,476 on the value of the embedded derivative. At February 28, 2017 and May 31, 2016, the amount of discount remaining on these notes was \$118,998 and \$163,586, respectively.

On March 27, 2017, the Company entered into a further amendment to the 8% Note, whereby the Company agreed to increase the outstanding amount due under the 8% Note as of March 18, 2017 by 5%, or \$10,000. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017. Also during the year ended May 31, 2017, the Company accrued interest in the amount of \$17,207 on the 8% Note.

On July 6, 2017, the 8% Note was further amended, whereby the maturity date was extended to July 15, 2017 and the outstanding balance was increased by \$15,750. On August 23, 2017, the 8% Note was amended again to extend the maturity date to September 15, 2017.

On September 23, 2017, but effective on September 15, 2017, the 8% note was further orally amended, and the outstanding balance was increased by \$96,862. The Company recognized the modification of this note as an extinguishment of debt and recognized a gain on the extinguishment of \$144,851. The Company also recognized a discount on the modified note of \$300,435, which was fully charged to operations during the three months ended November 30, 2017. On September 25, 2017, but effective September 15, 2017, the Company entered into an Exchange Agreement, whereby it agreed to exchange the 8% Note for 4,500,000 shares of its common stock. Old Main, the original holder of the 8% Note, had previously sold it for \$382,496. The balance due by the Company under the 8% Note at the time it was sold was \$322,612. The Company recognized a loss on this exchange in the amount of \$1,113,883, which was charged to operations during the nine months ended February 28, 2018.

During the three and nine months ended February 28, 2018, the Company accrued interest in the amount of \$0 and \$5,587, respectively, on the 8% Note, and \$30,411 of the discount was amortized to interest expense during the nine months ended February 28, 2018.

- 210,000

	<u>February 28,</u> <u>2018</u>	<u>May 31,</u> <u>2017</u>
Senior Convertible promissory note payable to FirstFire Global Opportunities Fund, LLC (the “FirstFire Note”) dated November 15, 2017 and bearing interest at a rate of 5% per annum. The lender loaned the Company \$330,000 and the FirstFire Note has an original issue discount of \$33,000. The FirstFire Note is due seven months from the date of issue. FirstFire may, at its option, convert all or a portion of the FirstFire Note and accrued but unpaid interest into shares of common stock at a conversion price of \$0.40 per share (the “FirstFire Fixed Conversion Price”) for the first 180 calendar days after the issue date. After the 180 th day, the conversion price shall equal the lower of (i) the FirstFire Fixed Conversion Price, or (ii) 75% multiplied by the lowest traded price of the common stock during twenty (20) consecutive trading day period immediately preceding the trading day that the Company received a notice of conversion. During the three months ended February 28, 2018, a dilutive issuance occurred. As a result, the FirstFire Fixed Conversion Price was reduced to \$0.3125 per share. The Company recognized a discount of \$363,000 on the FirstFire Note related to the beneficial conversion feature at the time of issuance. During the three and nine months ended February 28, 2018, \$86,362 and \$116,445, respectively, of this discount was charged to operations. During the three and nine months ended February 28, 2018, the Company accrued interest in the amount of \$4,475 and \$5,221 on this note, respectively.	363,000	-
Convertible promissory note payable to Darling Capital, LLC (the “Darling Note”) dated February 5, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$500,000 and the Darling Note has an original issue discount of \$50,000. The Darling Note is due eighteen months from the date of issue. Darling may, 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. The Darling Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Darling Note will be reset to such lower price. The Company recognized a discount of \$550,000 on the Darling Note related to the beneficial conversion feature at the time of issuance. During the three months ended February 28, 2018, \$23,168 of this discount was charged to operations. During the three months ended February 28, 2018, the Company accrued interest in the amount of \$2,773 on this note.	550,000	-
Convertible promissory note payable to Efrat Investments, LLC (the “Efrat Note”) dated February 12, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$50,000 and the Efrat Note has an original issue discount of \$5,000. The Efrat Note is due eighteen months from the date of issue. Efrat may, 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. The Efrat Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Efrat Note will be reset to such lower price. The Company recognized a discount of \$55,000 on the Efrat Note related to the beneficial conversion feature at the time of issuance. During the three months ended February 28, 2018, \$1,612 of this discount was charged to operations. During the three months ended February 28, 2018, the Company accrued interest in the amount of \$193 on this note.	55,000	-
<hr/>		
Total - Convertible Notes Payable	\$ 968,000	\$ 310,000
Less: Discount	(826,775)	(57,644)
Convertible Notes Payable, Net of Discounts	<u>\$ 141,225</u>	<u>\$ 252,356</u>
<hr/>		
Total - Convertible Notes Payable, Net of Discounts, Current Portion	\$ 141,225	\$ 252,356
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	\$ -	\$ -
<hr/>		
Discounts on notes payable amortized to interest expense – 3 months ended February 28, 2018:	818,254	308,606
Discounts on notes payable amortized to interest expense – 9 months ended February 28, 2018:	1,391,110	1,197,998

Beneficial Conversion Features

The 8% Note, FirstFire Note, Darling Note, Efrat Note, and Lamadrid Note contain 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 component of the 8% Note was valued at issuance, at conversion, at restructure, and at each period end. See note 11.

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 12 – Stockholders' Equity

The Company's authorized capital stock consists of 250,000,000 shares of common stock, par value \$0.0001 per share and 20,000,000 shares of preferred stock, par value \$0.001 per share. The Company had 43,186,944 and 32,852,944 shares of common stock issued and outstanding as of February 28, 2018 and May 31, 2017, respectively.

The Company recorded imputed interest of \$265 and \$265 during the three months ended February 28, 2018 and 2017 on related party payables due to a director and officer of the Company. The Company recorded imputed interest of \$804 and \$804 during the nine months ended February 28, 2018 and 2017 on related party payables due to a director and officer of the Company.

During the three months ended February 28, 2017, Old Main, holder of convertible promissory notes, converted an aggregate of \$100,000 of principal, in six transactions, into 828,173 shares of common stock. As a result of the conversions, the Company charged the amount \$222,574 to additional paid-in capital.

Stock Issued for Services

On July 13, 2017, the Company issued 24,000 shares of common stock to a consultant in exchange for a \$6,000 accrued liability for services previously provided. This resulted in a gain on the settlement of accounts payable in the amount of \$3,480.

Stock Issued for Note Exchange

On September 20, 2017, the Company entered into an Exchange Agreement, whereby it agreed to exchange the April 2015 Note for 1,500,000 shares of its common stock valued at \$510,000. The holder of the April 2015 Note had previously sold it for \$105,219, which represented the balance due by the Company, to StarForce Media, Inc., an entity that is not affiliated with the Company. The Company recognized a loss on this exchange in the amount of \$404,082, which was charged to operations during the nine months ended February 28, 2018.

On September 25, 2017, the Company entered into an Exchange Agreement, whereby it agreed to exchange the 8% Note for 4,500,000 shares of its common stock valued at \$1,844,035. The Company recognized a loss on this exchange in the amount of \$989,032, which was charged to operations during the nine months ended February 28, 2018.

Stock Issued with Note

On November 15, 2017, the Company issued 250,000 shares of restricted Common Stock, valued at \$95,000, as a commitment fee to a convertible note holder.

Stock Issued in Offering

On December 7, 2017, the Company commenced a private offering of its securities, the terms of which were amended on January 17, 2018 (the "WestPark Offering"). The Company offered for sale a minimum of 800,000 units and a maximum of 4,000,000 units at a price of \$1.25 per unit. Each unit consisted of four shares of common stock and one warrant to purchase common stock at \$0.75 per share.

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On February 7, 2018, the Company received gross proceeds of \$1,087,500 from the WestPark Offering, of which \$146,975 were expenses, resulting in net proceeds of \$940,525, from the sale of units. This resulted in the issuance of 3,480,000 shares of common stock and 870,000 warrants to purchase common stock at a price of \$0.75.

On February 21, 2018, the Company received additional gross proceeds of \$100,000 from the WestPark Offering, of which \$28,100 were expenses, resulting in net proceeds of \$71,900, from the sale of units. This resulted in the issuance of 320,000 shares of common stock and 80,000 warrants to purchase common stock at a price of \$0.75.

On February 28, 2018, the Company received additional gross proceeds of \$81,250 from the WestPark Offering, of which \$12,148 were expenses, resulting in net proceeds of \$69,102, from the sale of units. This resulted in the issuance of 260,000 shares of common stock and 65,000 warrants to purchase common stock at a price of \$0.75. At February 28, 2018, the net proceeds of this sale had not yet been received by the Company, and the amount of \$69,102 is recorded as common stock subscriptions receivable on the Company's balance sheet.

Warrants

On November 15, 2017, in connection with the Company's sale of a convertible debenture, the Company issued FirstFire Global Opportunities Fund, LLC ("FirstFire") a three-year common stock purchase warrant to purchase 350,000 shares of the Company's common stock at an initial exercise price of \$0.75 per share. These warrants were valued at \$123,950 and were charged to operations during the nine months ended February 28, 2018.

On February 9, 2018, in connection with the Company's sale of a convertible debenture, the Company issued Darling Capital ("Darling") a three-year common stock purchase warrant to purchase 400,000 shares of the Company's common stock at an initial exercise price of \$0.75 per share. These warrants were valued at \$313,128 and were charged to operations during the nine months ended February 28, 2018.

On February 16, 2018, in connection with the Company's sale of a convertible debenture, the Company issued Efrat Investments ("Efrat") a three-year common stock purchase warrant to purchase 40,000 shares of the Company's common stock at an initial exercise price of \$0.75 per share. These warrants were valued at \$32,076 and were charged to operations during the nine months ended February 28, 2018.

On February 26, 2018, in connection with the Company's sale of a convertible debenture, the Company issued David Lamadrid a three-year common stock purchase warrant to purchase 25,000 shares of the Company's common stock at an initial exercise price of \$0.75 per share. These warrants were valued at \$18,974 and were charged to operations during the nine months ended February 28, 2018.

On February 7, 2018, the Company issued three-year common stock purchase warrants to purchase an aggregate of 870,000 shares of the Company's common stock at an exercise price of \$0.75 per share, to investors in the WestPark Offering.

On February 21, 2018, the Company issued three-year common stock purchase warrants to purchase an aggregate of 80,000 shares of the Company's common stock at an exercise price of \$0.75 per share, to investors in the WestPark Offering.

On February 28, 2018, the Company issued three-year common stock purchase warrants to purchase an aggregate of 65,000 shares of the Company's common stock at an exercise price of \$0.75 per share, to investors in the WestPark Offering.

As of February 28, 2018, the Company was obligated to issue a five-year warrant to purchase 152,250 of the Company's units at an exercise price of \$1.25 per unit to WestPark Capital, Inc., the placement agent for the WestPark Offering. Each unit consists of four shares of common stock and one warrant to purchase a share of common stock for \$0.75 per share. This warrant is part of the placement agent's compensation pursuant to the placement agent agreement. This warrant was valued at \$610,414, which amount was charged to operations during the nine months ended February 28, 2018.

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The following table summarizes the significant terms of warrants outstanding at February 28, 2018. These warrants were granted as part of financing agreements:

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
\$ 0.75	1,480,000	2.99	\$ 0.75	1,480,000	\$ 0.75
	<u>1,480,000</u>	<u>2.99</u>	<u>\$ 0.75</u>	<u>1,480,000</u>	<u>\$ 0.75</u>

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding at May 31, 2017	-	\$ -
Granted	1,480,000	\$ 0.75
Exercised	-	\$ -
Cancelled / Expired	-	\$ -
Warrants outstanding at February 28, 2018	<u>1,480,000</u>	<u>\$ 0.75</u>

Note 13 – Fair Value of Financial Instruments

The Company has issued convertible notes containing beneficial conversion features to Old Main, Darling, Efrat, David Lamadrid and FirstFire. The Old Main 8% Note was satisfied during the three months ended November 30, 2017, along with the derivative liability associated with the Old Main 8% Note. See note 11. 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 following summarizes the Company’s derivative financial liabilities that are recorded at fair value on a recurring basis at February 28, 2018 and May 31, 2017.

	February 28, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	\$ -	\$ -	\$ 974,175	\$ 974,175
	May 31, 2017			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	\$ -	\$ -	\$ 95,276	\$ 95,276

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The estimated fair values of the Company's derivative liabilities are as follows:

	<u>Derivative Liability</u>
Liabilities Measured at Fair Value	
Balance as of May 31, 2017	\$ 95,276
Issuances	3,091,039
Conversions/Redemptions	(2,238,003)
Revaluation loss	<u>25,863</u>
Balance as of February 28, 2018	<u>\$ 974,175</u>

Note 14 – Commitment and Contingencies

In connection with the Colorado Arrangement, 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 has an initial term of seventy-two (72) months and provides 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 February 28, 2018.

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, President 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. Mr. Binder has deferred all of the salary payable to him under his employment agreement through November 30, 2017. On July 20, 2016, March 31, 2017, August 23, 2017, October 9, 2017, and January 5, 2018 the Company issued Mr. Binder convertible notes in exchange for \$250,000, \$112,500, \$62,500, \$39,521, and \$37,500 respectively, in deferred salary, among other amounts owed to Mr. Binder by the Company. As of February 28, 2018 and May 31, 2017, the Company had accrued compensation due to Mr. Binder in the amount of \$37,500 and \$37,500.

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 is entitled to receive an annual salary of \$150,000. Further, he is 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"), will indirectly receive the benefits of the Colorado Arrangement discussed in Note 12. The business to be operated by PRH pursuant to the Colorado Arrangement has not yet produced revenues. Mr. Bonsett agreed to defer his salary effective July 1, 2017; at February 28, 2018, the Company had accrued compensation due to Mr. Bonsett in the amount of \$37,500. On October 1, 2017, the Company and Mr. Alan 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 is entitled to receive an annual salary of \$175,000. Further, he is 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 is entitled to a one-time signing bonus of 500,000 shares of restricted common stock of the Company, which shall become fully vested one year from the effective date of the agreement.

At February 28, 2018 and May 31, 2017, 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 15 – Subsequent Events

On April 2, 2018, the Company and Alternative Solutions entered into a Third Amendment to the Membership Interest Purchase Agreement (the "Third Amendment") and extended the date upon which the Company is to pay the "Oasis Note" by approximately one (1) year to December 31, 2019. The Third Amendment also provides that the time period to determine average daily net revenue for the "Bonus Purchase Price", is amended to be the calendar year ending December 31, 2019 with the payment due thereunder extended to May 30, 2020.

On April 2, 2018, the Company and Alternative Solutions also entered into a Fourth Amendment to the Membership Interest Purchase Agreement (the "Fourth Amendment") and extended the date upon which the Company is to pay the "Closing Consideration," to May 21, 2018.

The Closing Consideration that the Company must pay to acquire the remaining 90% of the Oasis LLCs, is equal to cash in the amount of \$6,200,000, a \$4.0 million promissory note due in December 2019 (the "Oasis Note"), and \$6,000,000 in shares (the "Purchase Price Shares") of the Company's common stock (collectively, the "Closing Consideration").

The number of Purchase Price Shares shall equal \$6,000,000 divided by the lower of \$1.00 or the conversion price to receive one share of the Company's common stock in its next equity offering that commences in 2018, multiplied by 80%. The Oasis Note will be secured by a first priority security interest over the assets of each of the Oasis LLCs and Alternative Solutions, including the Company's 10% equity interest in the Oasis LLCs, and the Company shall deliver to Alternative Solutions a confession of judgment that will become effective in the event of any event of default under the Oasis Note.

Oasis currently owes certain amounts to a consultant known as 4Front Advisors, LLC. If the Company makes any payments to this company post-closing, generally speaking, the Company will be entitled to deduct the present value of such payments from the principal amount due under the Oasis Note.

Assuming the Company closes on the Acquisition Agreement, in May 2020, Alternative Solutions will be entitled to a \$1,000,000 payment from the Company (the "Bonus Purchase Price") 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 sale, assignment, transfer, pledge or other disposition of any interest in the Oasis LLCs or Alternative Solutions is ineffective unless approved in advance by the State of Nevada and any municipality in which the Oasis LLC's operation is licensed.

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In connection with the Oasis Acquisition, the Company plans to employ Mr. Ben Sillitoe as its COO. The Company plans to issue him 500,000 shares of restricted common stock pursuant to his proposed employment agreement. Upon the Company's payment of the closing consideration, it will also be obligated to issue 500,000 shares of its restricted common stock to each of David Lamadrid, its President and Chief Financial Officer, and J.P. Barton, for introducing the Company to Alternative Solutions.

The closing of the Acquisition Agreement is subject to a number of conditions, including the Company's ability to raise the \$8,000,000 in cash required to close the transaction. As a result, there can be no assurance that the Company will be able to close the Oasis Acquisition.

On March 2, 2018, the Company entered into a consulting agreement with Starcity Capital, LLC to assist in its investor relations for a period of three months. Pursuant to the terms of the consulting agreement, the Company issued 117,000 shares of common stock and issued a three-year warrant to purchase up to 412,500 share of common stock at an exercise price of \$0.75 per share. The stock and warrants vest over the term of the agreement.

On March 12, 2018, the Company received conversion notices for the related party notes payable to CLS CO 2016, LLC, Newcan and Jeffery Binder. Frank Koretsky, the holder of the CLS CO 2016, LLC note, converted accrued interest in the amount of \$9,308 into 29,786 shares of common stock. Jeffery Binder converted notes with an aggregate principal amount of \$464,698 and accrued interest in the amount of \$507,756 into 1,624,819 shares of common stock. Newcan, an entity owned by Mr. Koretsky, converted notes with an aggregate principal amount of \$956,658 and accrued interest in the amount of \$3,375,220 into 3,375,220 shares of common stock. Frank Koretsky also converted accrued interest on notes issued to him in the amount of \$46,626 into 149,203 shares of common stock.

On March 30, 2018, the Company conducted its final closing of the WestPark Offering. At such closing, the Company sold 441,563 units (1,413,000 shares of common stock and three-year common stock purchase warrants to purchase 353,250 shares of common stock) for gross proceeds of \$441,563. These shares were not yet issued as of April 3, 2018.

On March 30, 2018, the Company issued a five-year warrants to purchase 205,238 units at an exercise price of \$1.25 per unit to the placement agent of the WestPark Offering. Each unit consists of four shares of common stock and a warrant to purchase one share of common stock for \$0.75 per share.

On April 6, 2018, the Company issued a convertible promissory note to Jeffrey Binder, an officer and director of the Company, in the amount of \$37,500.00 (the "Binder Convertible Note 8"), with respect to certain compensation payable to Mr. Binder as of February 28, 2018. The Note is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2019. The Binder Convertible Note 8 may be prepaid by the Company with no penalty at any time upon thirty days written notice. Mr. Binder may, at any time prior to payment or prepayment in full, convert all principal and accrued interest thereunder, in whole or in part, into securities of the Company. For each \$0.3125 converted, Mr. Binder will receive one share of the Company's common stock.

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

OVERVIEW 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 in this annual report.

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. Recently, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined when we will pursue it again. Instead, we plan to pursue other revenue producing opportunities, including the Acquisition Agreement with Alternative Solutions, as described below, in other states through the acquisition of cannabis and other complementary companies. We recently received a Notice of Allowance from the U.S. Patent and Trademark Office with respect to our patent application for our proprietary extraction and conversion methodology. We have not yet commercialized our proprietary process and have not earned any revenues.

We intend to monetize our extraction and conversion method and generate revenues through (i) the licensing of our patent pending 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.

With our planned acquisition of Oasis Cannabis pursuant to the Acquisition Agreement, as described below, our mission has shifted to becoming a fully licensed integrated cannabis producer and retailer in Nevada and other western states. Our strategy and business model will be similar to Canopy Growth (WEED.TO), Aurora Cannabis (ACB.TO) and GB Sciences (GBLX). CLS stands for “Cannabis Life Sciences,” in recognition of our patent pending proprietary method of extracting various cannabinoids from the marijuana plant and converting them into products with a higher level of quality and consistency. Our business model includes licensing operations, processing operations, processing facilities, sale of products, brand creation and consulting services.

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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. In addition, since 2014, the federal budget has prohibited the DOJ from using federal funds to prosecute medical cannabis businesses pursuant to a budget rider, which must be renewed annually and is presently set to expire on January 19, 2018. The Attorney General has now advised that it will be left to the discretion of the local US attorneys in the various districts to decide how and when to enforce the federal marijuana laws. As a result of the Attorney General's recent guidance, it is unclear whether and how US attorneys in states with medical and/or recreational marijuana laws will enforce federal laws relating to the prohibition of the possession, ownership or sale of marijuana, among other things. It is also unclear whether any states will challenge the Attorney General's new pronouncement in the applicable courts. However, as a result of the Attorney General's new guidance, some banks, clearing brokers and other businesses may cease or limit how they do business with companies in the marijuana business to avoid a possible violation of federal law. It is also possible that some US attorneys may begin enforcing federal laws to prevent marijuana businesses that are otherwise validly operating under state laws, from conducting business. Thus, regardless of whether the Attorney General's new pronouncement is enforced or found to be lawful, it could have a material adverse impact on the marijuana industry, including our business.

We had a net loss of \$2,501,058 and \$5,592,341 for the three and nine months ended February 28, 2018, resulting in an accumulated deficit as of February 28, 2018 of \$14,583,951. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the Three Months Ended February 28, 2018 and 2017

Revenues

The Company had no revenues during the three months periods ended February 28, 2018 and February 28, 2017.

General and administrative expenses

General and administrative expenses increased \$693,843, or approximately 4481%, to \$838,047 during the three months ended February 28, 2018, compared to \$144,204 for the three months ended February 28, 2017. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, compensation costs, bank charges and payroll expenses. The increase was primarily due to \$610,414 incurred with the value of the warrants issued to placement agent for the private offering and \$55,000 in stock compensation awarded to an officer on the Company. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Professional fees

Professional fees increased \$277,057, or approximately 277%, to \$376,924 during the three months ended February 28, 2018 compared to \$99,867 for the three months ended February 28, 2017. This increase was due primarily to the greater legal and investor relations fees relating to our convertible debt and equity offerings during the three months ended February 28, 2018 compared to the prior period. We expect professional fees to increase in future periods as our business grows.

Interest expense

Interest expense for the three months ended February 28, 2018 was \$1,434,314, an increase of \$1,053,165, or 276%, compared to \$381,149 for the three months ended February 28, 2017. Interest expense increased primarily due to \$477,195 of interest expense associated with the discount and warrants issued with the Darling Note; \$50,035 of interest expense associated with the discount and warrants issued with the Efrat Note; and \$24,827 of interest expense associated with the discount and warrants issued with the Lamadrid Note. During the three months ended February 28, 2018, we increased the conversion price of some of the related party convertible notes, which resulted in additional amortization expense of \$346,472 during the nine months ended February 28, 2018. During the three months ended February 28, 2018, we also had amortization of deferred financing costs of \$19,450.

Change in fair value of derivative liability

We revalued the derivative liability related to our convertible notes at February 28, 2018 at \$974,175. This revaluation resulted in a gain of \$148,227, a decrease of \$96,621 compared to a gain of \$244,848 during the three months ended February 28, 2017.

Net loss

For the reasons above, we had a net loss for the three months ended February 28, 2018 of \$2,501,058, which is an increase of \$2,120,686, or approximately 558%, compared to a net loss of \$380,372 during the three months ended February 28, 2017.

Results of Operations for the Nine Months Ended February 28, 2018 and 2017

Revenues

The Company had no revenues during the nine months periods ended February 28, 2018 and February 28, 2017.

General and administrative expenses

General and administrative expenses increased \$654,397, or approximately 136%, to \$1,136,468 during the nine months ended February 28, 2018, compared to \$482,071 for the nine months ended February 28, 2017. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, compensation costs, bank charges and payroll expenses. The increase was primarily due to \$610,414 incurred with the value of the warrants issued to placement agent for the private offering and \$55,000 in stock compensation awarded to an officer on the Company. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Professional fees

Professional fees increased \$91,988, or approximately 15%, to \$695,086 during the nine months ended February 28, 2018 compared to \$603,098 for the nine months ended February 28, 2017. This increase was due primarily due primarily to the greater legal and investor relations fees relating to our convertible debt and equity securities offerings during the nine months ended February 28, 2018 compared to the prior period. We expect professional fees to increase in future periods as our business grows.

Interest expense

Interest expense for the nine months ended February 28, 2018 was \$2,316,145, an increase of \$920,634, or 66%, compared to \$1,395,511 for the nine months ended February 28, 2017. Interest expense increased primarily due to an increase in amortization of the discount on convertible debt, which was \$1,391,110 during the current period compared to \$752,195 for the comparable period of the prior year. Interest expense also increased due to \$477,195 of interest expense associated with the discount and warrants issued with the Darling Note; \$50,035 of interest expense associated with the discount and warrants issued with the Efrat Note; and \$24,827 of interest expense associated with the discount and warrants issued with the Lamadrid Note. During the nine months ended February 28, 2018, we increased the conversion price of some of the related party convertible notes, which resulted in additional amortization expense of \$346,472 during the nine months ended February 28, 2018. During the nine months ended February 28, 2018, we also had amortization of deferred financing costs of \$22,569.

Change in fair value of derivative liability

We revalued the derivative liability related to our Convertibles Notes at February 28, 2018 at \$974,175. This revaluation resulted in a loss of \$25,863, a decrease in the amount of \$418,977 compared to a gain of \$393,114 during the nine months ended February 28, 2017.

Gain on settlement of debt

During the nine months ended February 28, 2018, we recognized a gain on the settlement of accounts payable in the amount of \$3,480 because we repaid an account using our common stock. There was no comparable transaction during the nine months ended February 28, 2017.

Loss on modification of debt

During the nine months ended February 28, 2018, we recognized a loss on the modification of debt in the amount of \$29,145. This loss related to the amendment of the 8% Note. On November 28, 2016, we entered into an amendment with Old Main regarding the 10% Notes. In exchange for amending the terms of the 10% Notes, we increased the outstanding principal balance by 10%, resulting in a loss on the modification of 10% Notes of \$33,334, which we included in results of operation for the nine months ended February 28, 2017.

Loss on note exchange

During the nine months ended February 28, 2018, we recognized a loss on the exchange of debt in the amount of \$404,532. This loss related to the exchange of the April 2015 Note for our common stock. There was not a similar transaction during the nine months ended February 28, 2017.

Loss on extinguishment of debt

During the nine months ended February 28, 2018, we recognized a loss on the extinguishment of debt in the amount of \$989,032. This loss is related to the exchange of the 8% Note for our common stock. There was no comparable transaction during the nine months ended February 28, 2017.

Net loss

For the reasons above, we had a net loss for the nine months ended February 28, 2018 of \$5,592,341 which is an increase of \$3,471,441, or approximately 164%, compared to a net loss of \$2,120,900 during the nine months ended February 28, 2017.

Liquidity and Capital Resources

The following table summarizes total current assets, liabilities and working capital at February 28, 2018 compared to May 31, 2017.

	February 28, 2018	May 31, 2017
Current Assets	\$ 58,762	\$ 79,720
Current Liabilities	\$ 2,794,538	\$ 1,826,478
Working Capital (Deficit)	\$ (2,735,776)	\$ (1,746,758)

At February 28, 2018 and May 31, 2017, we had a working capital deficit of \$2,735,776 and \$1,746,758, respectively. This working capital deficit occurred primarily because we have not yet commenced earning revenues. We plan to commence earning revenues upon the closing on our pending Acquisition Agreement with Alternative Solutions, which we believe will close in approximately May 1, 2018, assuming certain conditions are satisfied, as described below. During the nine months ended February 28, 2018, we obtained loans from our officers, directors and entities affiliated with Frank Koretsky, one of our directors, to cover operating expenses. We also obtained a loan from FirstFire to pay the initial deposit due under the Acquisition Agreement. We obtained the funds for the second \$1.8 million deposit from the proceeds of the Darling Capital loan and from the net proceeds from the first closing of the WestPark Offering. This working capital deficit will likely increase until we begin earning revenues but should not be viewed as an indicator of our future performance once we commence earning revenues. We have operated at a loss since inception.

Cash flows used in operating activities was \$909,072 during the nine months ended February 28, 2018 compared to \$899,291 during the nine months ended February 28, 2017, an increase in the amount of \$9,781. This increase is due primarily to an increase in accounts payable and accrued expenses at February 28, 2018 in the amount of \$800,196 compared to the prior period.

Cash flows used in investing activities was \$2,050,000 during the nine months ended February 28, 2018 compared to \$35,013 during the nine months ended February 28, 2017. The amounts used during the nine months ended February 28, 2018 were the initial \$250,000 and \$1,800,000 deposits made pursuant to the terms of the Acquisition Agreement. The amounts used during the nine months ended February 28, 2017 related to construction in progress at our Colorado processing facility, which has been put on hold.

Cash flows provided by financing activities provided \$2,903,495 during the nine months ended February 28, 2018 compared to \$852,000 during the nine months ended February 28, 2017. The increase in cash flows from financing activities during the nine months ended February 28, 2018, was primarily due to our sale of the convertible notes to Darling, Efrat and David Lamadrid and the sale of our equity securities in the WestPark Offering.

Cash flows provided by financing activities provided \$2,903,495 during the nine months ended February 28, 2018 compared to \$852,000 during the nine months ended February 28, 2017. The increase in cash flows from financing activities during the nine months ended February 28, 2018, was primarily due to the net proceeds from the WestPark offering and additional convertible notes issued during the nine months ended February 28, 2018.

Old Main Agreements

On March 18, 2016, we issued Old Main an 8% Convertible Promissory Note (the “8% Note”) in the principal amount of \$200,000 for Old Main’s commitment to enter into an equity line transaction with us and prepare all of the related transaction documents. The 8% Note bears interest at the rate of 8% per annum. On October 6, 2016, we amended the 8% Note, among other documents (the “First Amendment”) to defer the commencement of amortization payments on the 8% Note so that they commenced at the earlier of February 3, 2017 or on the date the registration statement with respect to the underlying shares had been declared effective by the SEC. On such date, we were required to begin to redeem 1/6th of the face amount of the 8% Note and any accrued but unpaid interest on a monthly basis. Such amortization payment could be made, at our option, in cash or, subject to certain conditions, in our common stock pursuant to a conversion rate equal to the lower of (a) \$1.07 (the “8% Note Fixed Conversion Price”) or (b) 75% of the lowest VWAP in the twenty (20) consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. Subject to certain exclusions, if we had sold or issued our common stock or certain common stock equivalents at an effective price per share that was lower than the 8% Note Fixed Conversion Price, the conversion price would have been reduced to equal to such lower price.

On November 28, 2016, we entered into a Second Amendment to the 8% Note issued on March 18 (the “Second Amendment”) to amend the 8% Note, among other documents, as amended by the First Amendment, in certain respects. Pursuant to the Second Amendment, among other things, the 8% Note was converted from an installment note to a “balloon” note, with all principal and interest on the 8% Note due on March 18, 2017; the Fixed Conversion Price associated with the 8% Note was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date; our ability to repay the 8% Note with our common stock was deleted except pursuant to a voluntary conversion by Old Main; and Old Main was prohibited from selling, per trading day, an amount of our common stock in excess of the greater of \$5,000 or 25% of the average number of shares of common stock sold per day for the five trading days preceding the day of sale multiplied by the average daily VWAP during the immediately preceding 5-trading day period.

On March 27, 2017, we entered into the third amendment to the 8% Note, which, among other things, increased the outstanding amount due under the 8% Note as of March 18, 2017 by 5%. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017.

On July 6, 2017, we entered into the fourth amendment to the 8% Note (the “Fourth Amendment”) to further amend the terms of the 8% Note. Pursuant to the Fourth Amendment, the maturity date of the 8% Note was extended to July 15, 2017 and the outstanding balance of the 8% Note as of June 30, 2017 was increased by multiplying it by 1.075. The Fourth Amendment was effective on June 30, 2017.

On August 23, 2017, we entered into the fifth amendment to the 8% Note (the “Fifth Amendment”) to further amend the terms of the 8% Note. Pursuant to the Fifth Amendment, the maturity date of the 8% Note was extended to September 15, 2017 and the outstanding balance remained unchanged. The Fifth Amendment was effective on July 15, 2017.

On September 25, 2017, but effective as of September 15, 2017, we entered into an Exchange Agreement, whereby we agreed to exchange the 8% Note for 4,500,000 shares of our common stock. Pursuant to an oral agreement with the original holder of the 8% Note, principal due under the 8% note was increased by \$96,862 to a total of \$322,612 prior to the date on which the exchange of the 8% Note for common stock occurred.

On April 18, 2016, we also entered into an equity line agreement with Old Main whereby we may issue and sell to Old Main, at our option from time to time, up to \$4,000,000 of our common stock at a purchase price equal to 80% of the lowest VWAP of the common stock during a five day “Valuation Period.”

On October 6, 2016, we entered into an amendment to the equity line Agreement to amend the new commitment period, which is 24 months from the date of this amendment. Second, the equity line agreement was amended to prohibit us from delivering a subsequent put notice from the beginning of any “Valuation Period” until the fourth trading day immediately following the closing associated with the prior put notice. Third, the beneficial ownership limitation was amended to increase the beneficial ownership limitation to 9.99% and to remove the ability of Old Main to increase or decrease the beneficial ownership limitation.

FirstFire Note

On November 15, 2017, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with FirstFire Global Opportunities Fund, LLC (“FirstFire”), whereby FirstFire agreed to purchase a 5% Senior Convertible Promissory Note in the aggregate principal amount of \$363,000 (the “FirstFire Note”) from us due, subject to the terms therein, due seven (7) months from the date of issuance, for a purchase price of \$330,000.

The FirstFire Note bears interest at the rate of 5% per annum. Any past due accrued and unpaid interest to be paid under the FirstFire Note bears interest at the lesser of 15% per annum or the maximum rate permitted by applicable law. At any time prior to the 180th day following the date of issuance, we may prepay all or any portion of the principal amount of the FirstFire Note and any accrued and unpaid interest by paying the following amounts: (i) within the initial 90 days after the date of issuance: 115% multiplied by the principal amount then due plus accrued interest; and (ii) from the 91st day through the 180th day after the date of issuance: 125% multiplied by the principal amount then due plus accrued interest.

The FirstFire Note is convertible at any time into shares of our common stock, at the option of the holder, at an initial conversion rate equal \$0.40 per share of common stock (the “Fixed Conversion Price”). Any time on or after the 180th day after the issuance of the FirstFire Note, the conversion price shall equal the lower of (a) the Fixed Conversion Price or (b) 75% of the lowest traded price of our common stock in the 20 consecutive trading days immediately prior to the day that we receive the applicable conversion notice. Subject to certain exclusions, if we sell or issue our common stock or certain common stock equivalents at an effective price per share that is lower than the then applicable conversion price, the conversion price will be reduced to be equal to such lower price. In the event of any event of default under the FirstFire Note, the outstanding principal amount of the FirstFire Note plus accrued but unpaid interest, multiplied by 150%, shall become immediately due and payable in common stock and/or cash, at the election of the holder.

On the closing date, we also issued FirstFire a three year common stock purchase warrant to purchase 350,000 shares of our common stock at an initial exercise price of \$0.75 per share and agreed to issue FirstFire promptly following the closing date 250,000 shares of our restricted common stock as a commitment fee to enter into the Purchase Agreement and prepare all of the related transaction documents.

During the three months ended February 28, 2018, an event occurred that triggered the reduction of the FirstFire Fixed Conversion Price from \$0.40 per share to \$0.3125 per share.

Darling Capital Note

On February 5, 2018, we entered into a Securities Purchase Agreement with Darling Capital LLC, (“Darling”), whereby Darling agreed to purchase a 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 may, 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. The Darling Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Darling Note will be reset to such lower price.

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.

Efrat Investments Note

On February 16, 2018, we entered into a Securities Purchase Agreement with Efrat Investments LLC, (“Efrat”), whereby Efrat agreed to purchase a 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 may, 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. The Efrat Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Efrat Note will be reset to such lower price.

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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.

David Lamadrid Note

On February 26, 2018, we entered into a Securities Purchase Agreement with David Lamadrid, (“Lamadrid”), whereby Mr. Lamadrid agreed to purchase a 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 may, 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. The Lamadrid Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Lamadrid Note will be reset to such lower price.

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.

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 Investment Partners, LLC, 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 \$.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 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 \$.25 per share. Pursuant to the Omnibus Loan Amendment Agreement, the conversion rate on all of the loans made by Mr. Koretsky, CO CLS 2016, and Newcan was reduced, if applicable, to \$.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 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.

Effective March 31, 2017, \$120,000 of the Koretsky Funding Notes was exchanged for Newcan Convertible Note 1. This note is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on July 1, 2018. At Newcan’s election, at any time prior to payment or prepayment of the loans in full, all principal and accrued interest under the loans may be converted, in whole or in part, into our common stock at the rate of one share for each \$0.25 converted.

After excluding the loans from Mr. Koretsky, CLS CO 2016 and Newcan that were converted into our common stock effective as of May 31, 2017, there was a balance of \$120,000 in loans that remained outstanding as of December 31, 2016. This amount consisted of the \$120,000 principal balance of the Koretsky Funding Loans (which were exchanged for Newcan Convertible Note 1 on March 31, 2017). Prior to May 31, 2017, Newcan advanced an additional \$621,658 of unsecured book entry loans. During the three months ended August 31, 2017, \$621,658 was transferred out of the Newcan Funding Notes and used to fund Newcan Convertible Note 4. In addition, during the three months ended August 31, 2017, Newcan loaned the Company an additional \$70,000 under the Newcan Funding Notes; this amount was transferred out of the Newcan Funding Notes and used to fund Newcan Convertible Note 5. These loans bear interest at the rate of 10% per annum and are convertible into our common stock at the rate of one share for each \$0.25 converted. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Newcan’s election, at any time prior to payment or prepayment of the Newcan Convertible Note 4 or 5 in full, all principal and accrued interest under the Newcan Convertible Note 4 or 5 may be converted, in whole or in part, into our common stock at the rate of one share for each \$0.25 converted.

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On October 9, 2017, Newcan exchanged \$30,000 in principal of Newcan Funding Notes (advanced in September 2017) for Newcan Convertible Note 6. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2019, at which time all accrued interest becomes due and payable. Commencing on April 1, 2019, the first of eight principal payments will become due; subsequent principal payments will become due on the first day of each July, October, January and April until paid in full. This note and accrued interest thereunder may be converted, in whole or in part, into one share of common stock for each \$0.25 converted.

On January 5, 2018, we issued a convertible promissory note to Newcan in the amount of \$115,000 to finalize the terms of repayment with respect to certain loans made to us by Newcan between October 13, 2017 and December 27, 2017 (the "Newcan Convertible Note 7). This note is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2019. The note may be prepaid by us with no penalty at any time upon thirty days written notice.

On January 10, 2018, effective December 1, 2017, we entered into the Second Omnibus Loan Agreement with Newcan, an entity owned by Frank Koretsky, a director of the Company, 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.

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.

Effective March 31, 2017, \$47,000 of the Binder Funding Notes and \$25,000 of accrued salary due to Mr. Binder were exchanged for Binder Convertible Note 4. This note is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on July 1, 2018. At Mr. Binder's election, at any time prior to payment or prepayment of the loans in full, all principal and accrued interest under the loans may be converted, in whole or in part, into our common stock at the rate of one share for each \$0.25 converted.

All of Mr. Binder's loans that were outstanding as of December 31, 2016 were converted to common stock effective May 31, 2017, including all of his accrued deferred salary as of December 31, 2016. As of May 31, 2017, there was a balance of \$149,550 in loans from Mr. Binder that remained outstanding. This amount consisted of the \$72,000 principal balance of Binder Convertible Note 4, which related to advances made and salary accrued after January 1, 2017, and an additional \$77,550 of unsecured, book entry loans. During the three months ended August 31, 2017, Mr. Binder advanced a total of \$47,767 to the Company under the Binder Funding Notes. Also during the three months ended August 31, 2017, principal in the amount of \$77,550, accrued salary due to Mr. Binder in the amount of \$37,500, and accrued interest in the amount of \$2,246 were transferred from the Binder Funding Notes to fund Binder Convertible Note 5, and principal in the amount of \$47,767, accrued salary due to Mr. Binder in the amount of \$25,000, and accrued interest in the amount of \$1,384 were transferred from the Binder Funding Notes to fund Binder Convertible Note 6. The Binder Convertible Notes 5 and 6 are unsecured and bear interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 5 or 6 in full, all principal and accrued interest under the Binder Convertible Note 5 or 6 may be converted, in whole or in part, into our common stock at the rate of one share for each \$0.25 converted.

On October 9, 2017, Mr. Binder, an officer and director of the Company, exchanged \$39,521 in principal of Binder Funding Notes (advanced in September and October 2017) for Binder Convertible Note 7. This amount included \$12,500 of accrued but unpaid salary due by the Company to Mr. Binder. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2019, at which time all accrued interest becomes due and payable. Commencing on April 1, 2019, the first of eight principal payments will become due; subsequent principal payments will become due on the first day of each July, October, January and April until paid in full. This note and accrued interest thereunder may be converted, in whole or in part, into one share of common stock for each \$0.25 converted.

On January 5, 2018, we issued a convertible promissory note to Mr. Binder in the amount of \$165,360 to finalize the terms of repayment with respect to certain loans made to us by Mr. Binder between November 6, 2017 and December 27, 2017, and certain compensation payable to Mr. Binder as of November 30, 2017 (the “Binder Convertible Note 8). This note is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2019. The note may be prepaid by us with no penalty at any time upon thirty days written notice.

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. 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.

On April 6, 2018, we issued Binder Convertible Note 8, in the amount of \$37,500.00, to Mr. Binder with respect to certain compensation payable to Mr. Binder as of February 28, 2018. Binder Convertible Note 8 is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2019. The note may be prepaid by us with no penalty at any time upon thirty days written notice. Mr. Binder may, at any time prior to payment or prepayment in full, convert all principal and accrued interest thereunder, in whole or in part, into our securities. For each \$0.3125 converted, Mr. Binder will receive one share of the Company’s common stock.

Omnibus Loan Amendment Agreement and Second Omnibus Loan Amendment

On May 31, 2017, we 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, 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 the Agreement would be increased from \$0.25 to \$0.3125 per share of common stock. The remaining terms of such notes remain unchanged.

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During February and March 2018, we held four closings of the WestPark Offering, whereby we sold units for \$1.25 per unit. Each unit consisted of four shares of common stock and one warrant to purchase one share of our common stock for \$0.75 per share. We sold a total of 1,368,250 units in the WestPark Offering for aggregate gross proceeds of \$1,710,313, and aggregate net proceeds of \$1,460,918 after deduction of placement agent commissions, a non-accountable expense allowance and expenses associated with the offering.

Over the next twelve months we will require significant additional capital to cover our projected cash flow deficits due to payments on the loan from FirstFire, the implementation of our business plan, including the acquisition of Oasis Cannabis, and the development of other alternative revenue sources.

We currently have two employees, Jeffrey Binder, who serves as our Chairman and Chief Executive Officer, and David Lamadrid, who serves as our President and Chief Financial Officer. In an effort to assist us conserve cash, Mr. Binder converted all his accrued salary due to him through February 28, 2018 into convertible promissory notes. Mr. Bonsett, our former Chief Operating Officer, left the Company effective October 1, 2017.

We do not currently have the capital necessary to meet our liquidity needs, fund our capital requirements or implement our business plan. We intend to fund our cash flow and capital requirements during the next year from the proceeds of the equity line, the sale of our debt and equity securities, by obtaining additional loans and with cash generated from the operations of companies we may acquire, such as Oasis Cannabis. There can be no assurance that we will be able to meet our needs, however, as we have not yet received any commitments for the purchase of our equity securities or for additional loans and although we have entered into a definitive agreement to acquire Oasis Cannabis, as described below, the closing of such agreement is subject to numerous conditions, including our ability to raise the required cash. Because we do not know when we will re-visit commencing operations in Colorado, there can be no assurance that PRH will ever generate sufficient cash to repay the \$500,000 loan from CLS Labs Colorado or to meet PRH's obligations under the Licensing Agreement or Equipment Lease. Further, due to the delays we encountered with the construction of our Colorado processing facility, we have placed our proposed Colorado operations on hold and will pursue revenue producing opportunities in other states. We anticipate that we may incur operating losses during the next twelve months unless we close on the Oasis Acquisition.

Oasis Cannabis Transaction

On December 4, 2017, CLS Holdings USA, Inc. (the "*Company*," "*CLS*" or "*we*") and Alternative Solutions, LLC ("*Alternative Solutions*") entered into a Membership Interest Purchase Agreement (the "*Acquisition Agreement*") for CLS to acquire (the "*Oasis Acquisition*") the outstanding equity interests in three subsidiaries of Alternative Solutions (collectively, the "*Oasis LLCs*"). Pursuant to the Acquisition Agreement, CLS paid a non-refundable deposit of \$250,000 upon signing, which was to be followed by an additional payment of \$1,800,000 within 45 days (75 days if an extension fee of \$200,000 is paid by CLS) for an initial 10% of each of the Oasis LLCs.

On January 16, 2018, CLS and Alternative Solutions entered into a First Amendment to the Membership Interest Purchase Agreement (the "*First Amendment*") and extended the date upon which the \$1,800,000 is to be paid to January 29, 2018 at 5:00 p.m. PST.

On January 25, 2018, CLS and Alternative Solutions entered into a Second Amendment to the Membership Interest Purchase Agreement (the "*Second Amendment*") and further extended the date upon which the \$1,800,000 is to be paid to February 5, 2018 at 5:00 p.m. PST.

On April 2, 2018, CLS and Alternative Solutions entered into a Third Amendment to the Membership Interest Purchase Agreement (the "*Third Amendment*") and extended the date upon which CLS is to pay the "Oasis Note" by approximately one (1) year to December 31, 2019. The Third Amendment also provides that the time period to determine average daily net revenue for the "Bonus Purchase Price", is amended to be the calendar year ending December 31, 2019 with the payment due thereunder extended to May 30, 2020.

On April 2, 2018, CLS and Alternative Solutions also entered into a Fourth Amendment to the Membership Interest Purchase Agreement (the "*Fourth Amendment*") and extended the date upon which CLS is to pay the "Closing Consideration," to May 21, 2018.

The Closing Consideration that we must pay to acquire the remaining 90% of the Oasis LLCs, is equal to cash in the amount of \$6,200,000, a \$4.0 million promissory note due in December 2019 (the "*Oasis Note*"), and \$6,000,000 in shares (the "*Purchase Price Shares*") of our common stock (collectively, the "*Closing Consideration*").

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The number of Purchase Price Shares shall equal \$6,000,000 divided by the lower of \$1.00 or the conversion price to receive one share of our common stock in our next equity offering that commences in 2018, multiplied by 80%. The Oasis Note will be secured by a first priority security interest over the assets of each of the Oasis LLCs and Alternative Solutions, including our 10% equity interest in the Oasis LLCs, and CLS shall deliver to Alternative Solutions a confession of judgment that will become effective in the event of any event of default under the Oasis Note.

Oasis currently owes certain amounts to a consultant known as 4Front Advisors, LLC. If we make any payments to this company post-closing, generally speaking, we will be entitled to deduct the present value of such payments from the principal amount due under the Oasis Note.

Assuming we close on the Acquisition Agreement, in May 2020, Alternative Solutions will be entitled to a \$1,000,000 payment from us (the "Bonus Purchase Price") 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 sale, assignment, transfer, pledge or other disposition of any interest in the Oasis LLCs or Alternative Solutions is ineffective unless approved in advance by the state of Nevada and any municipality in which the Oasis LLC's operation is licensed.

In connection with the Oasis Acquisition, we plan to employ Mr. Ben Sillitoe as our COO. We plan to issue him 500,000 shares of restricted common stock pursuant to his proposed employment agreement. Upon our payment of the closing consideration, we will also become obligated to issue 500,000 shares of our restricted common stock to each of David Lamadrid, our President and Chief Financial Officer, and J.P. Barton, for introducing us to Alternative Solutions.

The closing of the Acquisition Agreement is subject to a number of conditions, including our ability to raise the \$8,000,000 in cash required to close the transaction. As a result, there can be no assurance that we will be able to close the Oasis Acquisition.

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, have an accumulated deficit of \$14,583,951 and had a working capital deficit of \$2,735,776 at February 28, 2018. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental 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 (“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 August 2016, the Financial Accounting Standards Board (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 will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted. We are currently evaluating the potential impact of the update 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 becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. We are currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying unaudited condensed consolidated financial statements.

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 David Lamadrid, 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. Lamadrid 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 executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure, for the following reasons:

- We do not have an independent board of directors or audit committee or adequate segregation of duties; and
- 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.

We know of no material pending legal proceedings to which the Company is a party or of which any of its property is the subject. In addition, we do not know of any such proceedings contemplated by any governmental authorities.

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 February 7, 21 and 28, the Company effected closings of its private securities offering conducted by WestPark Capital, Inc., as placement agent, whereby it sold an aggregate of \$1,268,750 in units to a total of 15 investors in a private offering exempt from registration under Rule 506(c) of Regulation D, promulgated under the Securities Act of 1933, as amended. Each unit consisted of four shares of the Company's common stock and one warrant to purchase one share of common stock for \$0.75. The price per unit was \$1.25. The net proceeds to the Company, after deducting the placement agent's commissions, the non-accountable expense allowance and actual expenses, was \$1,081,528. The offering was exempt pursuant to Rule 506(c) because it was a private offering in which only verified accredited investors were permitted to purchase units.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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: April 16, 2018

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

Date: April 16, 2018

By: /s/ David Lamadrid
David Lamadrid
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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.

April 16, 2018

/s/ Jeffrey I. Binder

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

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

I, David Lamadrid, 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.

April 16, 2018

/s/ David Lamadrid

David Lamadrid
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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 February 28, 2018 (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: April 16, 2018

/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.

**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, David Lamadrid, 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 February 28, 2018 (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: April 16, 2018

/s/ David Lamadrid

David Lamadrid

President and 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.