# 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, 2017**

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

**1435 Yarmouth Street, Boulder, Colorado 80304**
(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☒ |

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: 22,035,984 shares (post reverse-split) of $0.0001 par value common stock outstanding as of April 6, 2017.

**CLS HOLDINGS USA, INC.**

FORM 10-Q
Quarterly Period Ended February 28, 2017

**TABLE OF CONTENTS**

## 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 the adequacy of our capital to finance our planned operations, 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 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, 2017 (Unaudited) | May 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 5,940 | $ 88,244 |
| Prepaid expenses | 22,791 | 6,742 |
| Total current assets | 28,731 | 94,986 |
| | | |
| Security deposit | 50,000 | 50,000 |
| Property, plant and equipment, net of accumulated depreciation of $1,561 and $892 | 1,113 | 1,782 |
| Construction in progress | 141,739 | 106,726 |
| Intangible assets, net of accumulated amortization of $720 and $396 | 1,438 | 1,762 |
| | | |
| Total assets | $ 223,021 | $ 255,256 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 569,959 | $ 431,017 |
| Accrued compensation, related party | 128,750 | 267,493 |
| Due to related party | 17,930 | 17,930 |
| Accrued interest | 57,518 | 41,116 |
| Accrued interest, related party | 199,190 | 68,148 |
| Notes payable, related parties | 167,000 | - |
| Convertible notes payable, net of discount of $419,584 and $227,475 | 147,082 | 72,525 |
| Convertible notes payable, related party, net of discount of $285,470 and $95,477 | 731,156 | 22,678 |
| Derivative liability | 167,372 | 418,537 |
| | | |
| Total current liabilities | 2,185,957 | 1,339,444 |
| | | |
| Noncurrent liabilities | | |
| Convertible notes payable, net of discount of $9,078 and $390,021 | 15,924 | 43,312 |
| Convertible notes payable, related parties, net of discount of $338,191 and $1,018,657 | 1,095,433 | 230,718 |
| Notes payable, related parties | - | 72,750 |
| | | |
| Total Liabilities | 3,297,314 | 1,686,224 |
| | | |
| Commitments and contingencies | - | - |
| | | |
| Stockholder's equity | | |
| Common stock, $0.0001 par value; 250,000,000 shares authorized; 21,178,176 and 20,350,003 shares issued and outstanding at February 28, 2017 and May 31, 2016, respectively | 2,118 | 2,035 |
| Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued | - | - |
| Additional paid-in capital | 3,104,675 | 2,627,183 |
| Stock payable | 65,700 | 65,700 |
| Accumulated deficit | (6,246,786) | (4,125,886) |
| Total stockholder's equity (deficit) | (3,074,293) | (1,430,968) |
| | | |
| Total liabilities and stockholders' equity (deficit) | $ 223,021 | $ 255,256 |

See accompanying notes to these financial statements.

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

| | For the Three Months Ended February 28, 2017 | For the Three Months Ended February 29, 2016 | For the Nine Months Ended February 28, 2017 | For the Nine Months Ended February 29, 2016 |
|---|---|---|---|---|
| Revenue | $ - | $ - | $ - | $ - |
| Cost of goods sold | - | - | - | - |
| Gross margin | - | - | - | - |
| | | | | |
| Selling, general and administrative expenses | 144,204 | 406,323 | 482,071 | 917,726 |
| Professional fees | 99,867 | 343,818 | 603,098 | 767,420 |
| Total operating expenses | 244,071 | 750,141 | 1,085,169 | 1,685,146 |
| | | | | |
| Operating loss | (244,071) | (750,141) | (1,085,169) | (1,685,146) |
| | | | | |
| Other (income) expense: | | | | |
| Interest expense | 381,149 | 106,599 | 1,395,511 | 177,464 |
| Loss on modification of debt | - | - | 33,334 | - |
| Change in fair value of derivative | (244,848) | - | (393,114) | - |
| Total other expense | 136,301 | 106,599 | 1,035,731 | 177,464 |
| | - | | | |
| Income (Loss) before income taxes | (380,372) | (856,740) | (2,120,900) | (1,862,610) |
| | | | | |
| Income tax expense | - | - | - | - |
| | | | | |
| Net income (loss) | $ (380,372) | $ (856,740) | $ (2,120,900) | $ (1,862,610) |
| | | | | |
| Net income (loss) per share - basic | $ (0.02) | $ (0.04) | $ (0.10) | $ (0.09) |
| | | | | |
| Net income (loss) per share - diluted | $ (0.02) | $ (0.04) | $ (0.10) | $ (0.09) |
| | | | | |
| Weighted average shares outstanding - basic | 20,465,360 | 20,182,640 | 20,388,033 | 20,081,901 |
| | | | | |
| Weighted average shares outstanding - diluted | 20,465,360 | 20,182,640 | 20,388,033 | 20,081,901 |

See accompanying notes to these financial statements.

Table of Contents

**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 29, 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income (loss) | $ (2,120,900) | $ (1,862,610) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Imputed interest | 804 | 807 |
| Change in fair value of derivative | (393,114) | - |
| Loss on modification of debt | 33,334 | - |
| Issuance of stock for services | - | 115,050 |
| Stock-based compensation | - | 327,500 |
| Amortization of debt discounts | 1,197,998 | 114,489 |
| Depreciation and amortization expense | 993 | 957 |
| Changes in assets and liabilities: | | |
| Prepaid expenses | (16,049) | 17,638 |
| Accounts payable and accrued expenses | 137,699 | 198,464 |
| Deferred liabilities | - | 47,888 |
| Accrued compensation, related party | 112,500 | 106,250 |
| Due to related parties | - | (525) |
| Accrued interest, related party | 131,042 | 39,647 |
| Accrued interest | 16,402 | 22,521 |
| Net cash used in operating activities | (899,291) | (871,924) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payments to acquire equipment | - | (2,674) |
| Payment for construction in progress | (35,013) | (41,803) |
| Net cash used in investing activities | (35,013) | (44,477) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from related party convertible notes payable | 150,000 | 345,000 |
| Proceeds from related party notes payable | 838,000 | 392,750 |
| Repayments of related party notes payable | (61,000) | - |
| Repayments of convertible notes payable | (75,000) | - |
| Net cash provided by financing activities | 852,000 | 737,750 |
| Net increase in cash and cash equivalents | (82,304) | (178,651) |
| Cash and cash equivalents at beginning of period | 88,244 | 208,821 |
| Cash and cash equivalents at end of period | $ 5,940 | $ 30,170 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Interest paid | $ 49,265 | $ - |
| Income taxes paid | $ - | $ - |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | |
| Convertible note issued for unpaid accrued salary | $ 250,000 | $ - |
| Related party notes payable reclassified as related party convertible notes payable | $ 222,750 | $ - |
| Discount on convertible notes payable due to derivatives | $ 518,720 | $ 945,000 |
| Extinguishment of debt – related party | $ 254,114 | $ - |
| Common stock issued for conversion of notes payable | $ 222,657 | $ - |
| Transfer principle from related party notes payable to related party convertible notes payable | $ - | $ 945,000 |

See accompanying notes to these financial statements.

**CLS HOLDINGS USA, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**February 28, 2017**
**(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, 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 a patent pending 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 patent pending 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 patent pending 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Company had cash and cash equivalents of $5,940 and $88,244 as of February 28, 2017 and May 31, 2016, 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 nine months ended February 28, 2017 and February 29, 2016.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred no research and development costs for the nine months ended February 28, 2017 and February 29, 2016, 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 used 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) are 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, 2017 and February 29, 2016.

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 are a summary of recent accounting developments.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). The update requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors will remain largely unchanged. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective approach beginning with the earliest period presented. The Company is currently evaluating the potential impact of the update on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), to reduce the complexity of certain aspects of the accounting for employee share-based payment transactions. ASU 2016-09 involves changes in several aspects of the accounting for share-based payment transactions, including the accounting for the income tax consequences of share-based awards. For public companies, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update will be effective for reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption is permitted. The Company is currently evaluating the potential impact of the update on its financial statements.

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 $6,246,786 as of February 28, 2017. Further losses are anticipated in the development of its 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, 2017 and May 31, 2016:

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Prepaid rent | $ 16,381 | $ - |
| Prepaid legal fees | 6,410 | 6,742 |
| Total | $ 22,791 | $ 6,742 |

**Note 4 – Construction in Progress**

The Company has construction in progress, in the amount of $141,739 and $106,726 at February 28, 2017 and May 31, 2016 on improvements to its leased facility in Colorado. As of February 28, 2017, the Company had yet to start amortizing these improvements.

**Note 5 – Security Deposit**

The Company had a security deposit in the amount of $50,000 at February 28, 2017 and May 31, 2016. This amount consisted of a deposit to secure office and warehouse space.

**Note 6 – Property, Plant and Equipment**

Property, plant and equipment consisted of the following at February 28, 2017 and May 31, 2016.

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Computer equipment | $ 2,674 | $ 2,674 |
| Property and equipment, gross | 2,674 | 2,674 |
| Less: accumulated depreciation | (1,561) | (892) |
| Property and equipment, net | $ 1,113 | $ 1,782 |

Depreciation expense totaled $223 and $669 for the three and nine months ended February 28, 2017 and February 29, 2016, respectively.

**Note 7 – Intangible Assets**

Intangible assets consisted of the following at February 28, 2017 and May 31, 2016.

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Domain name | $ 2,158 | $ 2,158 |
| | 2,158 | 2,158 |
| Less: accumulated amortization | (720) | (396) |
| Intangible assets, net | $ 1,438 | $ 1,762 |

Total amortization expense charged to operations for the three and nine months ended February 28, 2017 was $108 and $324, respectively, and $108 and $288 for the three and nine months ended February 29, 2016, respectively. The domain name is being amortized over a period of 60 months.

**Note 8 – Accounts Payable and Accrued Liabilities**

The Company had accounts payable and accrued liabilities of $569,959 and $431,017 at February 28, 2017 and May 31, 2016, respectively, which consist of legal fees, deferred rent liability and other trade payables.

**Note 9 – Related Party Transactions**

As of February 28, 2017 and May 31, 2016, the Company owed the amount of $112,500 and $250,000, respectively, to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary. For the nine months ended February 28, 2017, unpaid accrued salary in the amount of $250,000 was transferred to a convertible promissory note due to Mr. Binder (see note 11).

As of February 28, 2017 and May 31, 2016, 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, 2017 and May 31, 2016, 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 $804 and $807 during the nine months ended February 28, 2017 and February 29, 2016, respectively. These interest accruals were charged to additional paid-in capital.

On April 17, 2015, prior to Alan Bonsett's appointment as Chief Operating Officer, the Company, through CLS Labs Colorado, entered into an arrangement with PRH (the "Colorado Arrangement") to, among other things, (i) license its proprietary technology, methods and processes to PRH in Colorado in exchange for a fee; (ii) sub-lease warehouse and office space in Denver, Colorado to PRH whereby PRH can grow, extract and process cannabis and other plant products in exchange for lease payments totaling an aggregate of $1,067,067 over a seventy-two (72) month term; (iii) build a processing facility and lease such facility, including equipment, to PRH in exchange for a monthly fee; and (iv) loan $500,000 to PRH to be used by PRH in connection with its financing of the building out, equipping, and development of a marijuana grow facility. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement. PRH entered into an arrangement with a third-party grower to grow marijuana at a location that is contiguous to PRH's leased real property. The grower obtained zoning approval, a certificate of occupancy to begin planting cannabis and operating the grow facility, and a Colorado Retail Marijuana Cultivation Facility License before commencing planting in December 2015, and the grow facility is now fully operational.

Additionally, upon Mr. Bonsett's employment on August 1, 2015 to serve as the Company's Chief Operating Officer, he received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement.

**Related Party Notes Payable**

The Company has convertible notes payable and notes payable outstanding to Jeffrey Binder, an officer and director, to Frank Koretsky, a director; and to Newcan Investment Partners LLC, an entity affiliated with Frank Koretsky. See note 11.

During the nine months ended February 28, 2017, the Company issued a $150,000 convertible note payable to CLS CO 2016, LLC an entity affiliated with Frank Koretsky, a director of the Company. See note 11.

During the nine months ended February 28, 2017 the Company incurred $580,000 in notes payable to Newcan Investment Partners LLC, an entity affiliated with Frank Koretsky, a director of the Company. See note 11. During the three months ended February 28, 2017, $460,000 in notes payable was converted to a convertible promissory note.

**Note 10 – Notes Payable**

| | February 28, 2017 | | May 31, 2016 | |
|---|---|---|---|---|
| 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, 2017, 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 nine months ended February 28, 2017, Mr. Binder advanced a total of $118,000 to the Company, and the Company repaid Mr. Binder $61,000 under the Binder Funding Note; $12,750 of this amount was transferred out of the Binder Funding Notes and used to fund a new convertible note payable to Mr. Binder (See “Binder Convertible Note 3” below). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $166 and $237, respectively, on the Binder Funding Notes. | $ | 47,000 | $ | 2,750 |
| 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 “Koretsky Funding Notes”). The Koretsky Funding Notes bear interest at a rate of 6% for loans made through November 30, 2017, 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 nine months ended February 28, 2017, Frank Koretsky advanced $140,000 and Newcan Investment Partners, LLC advanced $580,000to the Company under the Koretsky Funding Notes; during the nine months ended February 28, 2017, $210,000 was transferred out of the Koretsky Funding Notes and used to fund a new convertible note payable to Mr. Koretsky (see “Koretsky Convertible Note 3” below) and $460,000 was transferred out of the Koretsky Funding Notes and used to fund new convertible notes payable to Newcan (see “Newcan Convertible Notes 1 and 2” below). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $1,102 and $7,890, respectively, on the Koretsky Funding Notes. | | 120,000 | | 70,000 |
| Total – Notes Payable, Related Parties | $ | 167,000 | $ | 72,750 |
| Current portion | $ | 167,000 | $ | - |
| Long term portion | $ | - | $ | 72,750 |

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Binder Convertible Note 1"). The Binder Convertible Note 1 was funded with $50,000 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $6,250 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 "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a three-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $50,000 on the value of the beneficial conversion feature at the time of issuance of this note. During the nine months ended February 28, 2017, $18,561 of this discount was charged to operations. During the three and nine months ended February 28, 2017 the Company accrued interest in the amount of $740 and $2,244, respectively, on this note. | 50,000 | 50,000 |
| Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Binder Convertible Note 2"). The Binder Convertible Note 2 was funded with $42,500 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 6% per annum through February 29, 2016 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $5,313 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 $1.07 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 $1.07 per share (post Reverse-Split). The Company recognized a discount of $37,840 on the value of the beneficial conversion feature at the time of issuance of this note. During the nine months ended February 28, 2017, $14,048 of this discount was charged to operations. During the three and nine months ended February 28, 2016, the Company accrued interest in the amount of $1,048 and $3,179, respectively, on this note. | 42,500 | 42,500 |
| Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Binder Convertible Note 3"). The Binder Convertible Note 3 was funded with the conversion of $250,000 of unpaid accrued salary due to Mr. Binder and $12,750 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 payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October 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 $1.07 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 $1.07 per share (post Reverse-Split). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $6,479 and $16,120, respectively, on this note. | 262,750 | - |
| Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Koretsky Convertible Note 1"). The Koretsky Convertible Note 1 was funded with $895,000 of advances Mr. Koretsky made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $111,875 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 "Unit" for each $0.75 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 $1.00 per share (post Reverse-Split). The Company recognized a discount of $895,000 on the value of the beneficial conversion feature at the time of issuance of this note. During the three and nine months ended February 28, 2017, $110,745 and $332,234, respectively, of this discount was charged to operations. During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $13,241 and $40,164, respectively, on this note. | 895,000 | 895,000 |

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated April 11, 2016 and due April 1, 2019 (the "Koretsky Convertible Note 2"). The Koretsky Convertible Note 2 was funded with $380,000 of advances Mr. Koretsky made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 6% per annum through February 29, 2016 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $47,500 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 $1.07 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 $1.07 per share (post Reverse-Split). The Company recognized a discount of $338,336 on the value of the beneficial conversion feature at the time of issuance of this note. During the three and nine months ended February 28, 2017, $41,867 and $125,602, respectively, of this discount was charged to operations. During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $9,370 and $28,422, respectively, on this note. | 380,000 | 380,000 |
| Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Koretsky Convertible Note 3"). The Koretsky Convertible Note 3 was funded with $210,000 of advances Mr. Koretsky made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October 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 $1.07 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 $1.07 per share (post Reverse-Split). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $5,178 and $13,728, respectively, on this note. | 210,000 | - |
| Unsecured convertible note issued to CLS CO 2016, LLC an entity affiliated with Frank Koretsky, a director of the Company, dated August 3, 2016 and due August 1, 2018 (the "CLS CO 2016 Note"). This note has a face amount of $150,000 and bears interest at the rate of 15% per annum. All interest accruing on this Note through the first anniversary of this Note shall be added to principal. Commencing on November 1, 2017, the Company shall pay the outstanding principal balance in four (4) equal quarterly installments, together with accrued interest, in arrears, 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 $1.07 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 $1.07 per share (post Reverse-Split). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $5,548 and $12,884, respectively, on this note. | 150,000 | - |

| | | February 28, 2017 | | May 31, 2016 |
|---|---|---|---|---|
| Unsecured convertible note issued to Newcan dated January 10, 2017 and due January 2, 2020 (the "Newcan Note 1"). The Newcan Note 1 was funded with $410,000 of advances Newcan made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $51,250 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 "Unit" for each $1.07 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 $1.07 per share (post Reverse-Split). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $5,504 on this note. | | 410,000 | | - |
| Unsecured convertible note issued to Newcan Investment Partners LLC an entity affiliated with Frank Koretsky, a director of the Company, dated January 10, 2017 and due January 2, 2020 (the "Newcan Note 2"). The Newcan Note 2 was funded with $50,000 of advances Newcan made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $6,250 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 "Unit" for each $1.07 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 $1.07 per share (post Reverse-Split). During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $671 on this note. | | 50,000 | | - |
| Total – Convertible Notes Payable, Related Parties | $ | 2,450,250 | | 1,367,500 |
| Less: Discount | | (623,661) | | (1,114,104) |
| Convertible Notes Payable, Related Parties, Net of Discounts | $ | 1,826,589 | | 253,396 |
| Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion | $ | 731,156 | $ | 22,678 |
| Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion | | 1,095,433 | | 230,718 |

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| 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 (post Reverse-Split) of common stock at $0.75 per share (post Reverse-Split). 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 nine months ended February 28, 2017, $82,390 of this discount was charged to operations. During the three months ended February 27, 2017, the Company repaid principal in the amount of $25,000 and interest in the amount of $6,690 on this note; during the nine months ended February 28, 2017, the Company repaid principal in the amount of $75,000 and interest in the amount of $49,265 on this note. During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $4,952 and $18,740, respectively, on this note. | 125,000 | 200,000 |
| Convertible Promissory Notes payable to Old Main Capital, LLC ("Old Main") dated March 18, 2016, April 22, 2016 and May 27, 2016 as amended on October 6, 2016 and November 28, 2016, for the purchase of up to $333,333 in 10% Original Issue Discount Convertible Promissory Notes (the "10% Notes"). These notes originally bore interest at the rate of 10% per annum, which increased to 15% effective August 1, 2016. Initially, Old Main could, at its option, convert all or a portion of the notes and accrued but unpaid interest into shares of common stock at a conversion price of $0.80 per share (post Reverse-Split) (the "Fixed Conversion Price"). The 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 Fixed Conversion Price (the "Base Conversion Price"), other than certain exempt issuances. In such an instance, the Fixed Conversion Price will be lowered to match the Base Conversion Price. Originally, at the earlier of October 18, 2016 or two trading days after the registration statement related to the Company's equity line was declared effective, the Company must begin to redeem 1/24th of the face amount of the notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payments could be made, at the Company's option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $0.80 or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days immediately prior to the conversion date. The Company recognized a discount of $330,188 on the 10% Notes related to the value of the original issue discount and embedded derivative at time of issuance.<br><br>On October 6, 2016, the 10% Notes were amended to increase the interest rate to 15% (effective August 1, 2016) and subsequently amended November 28, 2016 to convert the 10% Notes from installment notes to "balloon" notes, with all principal and accrued interest due on September 18, 2017. In exchange for amending the terms of the 10% Notes, the Company increased the outstanding principal balance by 10% to $366,666. 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. This November 28, 2016 amendment required an extinguishment analysis of the 10% Notes resulting in the gain on extinguishment of debt in the amount of $172,618 during the nine months ended February 28, 2017. The gain on extinguishment of debt was included in additional paid in capital during the nine months ended February 28, 2017. The 10% Notes were revalued as of the November 28, 2016 amendment and the Company recognized a discount of $366,666 on the value of the embedded derivative. During the three months ended February 28, 2017 Old Main converted an aggregate of $100,000 of principal, in six transactions, into 828,173 shares of common stock. . At February 28, 2017 and May 31, 2016, the amount of discount remaining on these notes was $264,276 and $326,132, respectively. During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $12,649 and $34,959, respectively, on these notes. | 266,666 | 333,332 |

Table of Contents

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Convertible promissory note payable to Old Main dated March 18, 2016 and amended on October 6, 2016 and November 28, 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. Originally, Old Main could, 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. Originally, at the earlier of February 3, 2017 or the effectiveness of the registration statement related to the Company’s equity line, 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 could 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 at the time of issuance.<br><br>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. During the three and nine months ended February 28, 2017, the Company accrued interest in the amount of $3,945 and $11,967, respectively, on this note. | 200,000 | 200,000 |
| Total - Convertible Notes Payable | $ 591,666 | $ 733,332 |
| Less: Discount | (428,660) | (587,910) |
| Convertible Notes Payable, Net of Discounts | $ 163,006 | $ 145,422 |
| Total - Convertible Notes Payable, Net of Discounts, Current Portion | $ 147,082 | $ 72,525 |
| Total - Convertible Notes Payable, Net of Discounts, Long-term Portion | $ 15,924 | $ 43,312 |
| Discounts on notes payable amortized to interest expense: | $ 1,197,998 | $ 286,317 |

*Beneficial Conversion Features*

The 10% Notes and the 8% Note (collectively, the "2016 Convertible Notes") contain conversion features that create derivative liabilities. The pricing model the Company used 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 2016 Convertible Notes was valued at November 28, 2016, the date of the second amendment to the 2016 Convertible Notes, and at period end. The following assumptions and key inputs were used for the valuation of the derivative liability related to the 2016 Convertible Notes at November 28, 2016 and February 28, 2017:

| Assumption | | |
|---|---|---|
| Expected dividends: | | 0% |
| Expected volatility: | | 93-168.3% |
| Expected term (years): | | 0.55-0.80 years |
| Risk free interest rate: | | 0.60-0.62 |
| Stock price | $ | 0.17-0.59 |

**Note 11 – 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 21,178,176 and 20,350,003 shares (post Reverse Split) of common stock issued and outstanding as of February 28, 2017 and May 31, 2016, respectively.

On December 10, 2014, the Company effected a reverse stock split of the Company's issued and outstanding common stock at a ratio of 1-for-0.625, wherein 0.625 shares of common stock were issued in exchange for each share of the Company's common stock owned by the Company's stockholders on December 1, 2014, the record date for the reverse stock split. As a result of the reverse stock split, 11,250,000 shares (post Reverse-Split) of common stock were outstanding as of December 10, 2014. The reverse stock split did not affect the number of authorized shares of the Company's common stock. All share and per share information contained in the financial statements has been retroactively adjusted to reflect the reverse stock split.

The Company recorded imputed interest of $804 and $807 during the nine months ended February 28, 2017 and February 29, 2016 on related party payables due to a director and officer of the Company.

On November 28, 2016 the Company amended the 2016 Convertible Notes which was accounted for as the extinguishment and reissuance of the debt. As a result, the Company recorded a gain on the extinguishment of debt in the amount of $254,114, which was included in additional paid-in capital at February 28, 2017.

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. (see Note 11).

On 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. Mr. Bonsett received a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, which became fully vested one year from the effective date of the agreement. The Company valued the shares at $327,500 based on the stock price at August 3, 2015 and is amortizing them over the term of the employment agreement. During the nine months ended February 29, 2016**,** the Company recognized $327,500 in share based compensation.

**Stock Issued for Services**

On August 28, 2015, the Company issued 60,000 shares of common stock, valued at $45,000, to a consultant for services. Of these shares, 50,000, valued at $37,500, were included in stock payable as of May 31, 2015. The shares were valued based on the closing market price of the common stock on the grant date.

On July 22, 2015, pursuant to a consulting agreement, the Company agreed to issue 5,000 shares of common stock, valued at $5,750, to a consulting firm in exchange for investor relations consulting services. On August 17, 2015, the consulting agreement was amended, whereby the Company agreed to issue 5,000 additional shares of common stock, valued at $6,650. On August 26, 2015, the Company extended the consulting agreement and agreed to issue the consultant an additional 10,000 shares of common stock, valued at $12,700. On October 9, 2015, the Company extended the consulting agreement and agreed to issue the consultant an additional 10,000 shares of common stock, valued at $11,700. On December 15, 2015, the Company extended the consulting agreement and agreed to issue the consultant an additional 10,000 shares of common stock, valued at $8,000. All shares were valued based on the closing market price of the common stock on the grant date. During the year ended May 31, 2016, the Company issued 40,000 shares to this consultant, valued at $32,750.

As of February 28, 2017, the Company had 70,000 shares of common stock payable valued at $65,700 due to two third party consultants included in stock payable on the accompanying balance sheets. The parties are in discussions regarding whether any shares of the Company's common stock have been earned and it is uncertain whether any shares will be issued.

**Note 12 – Fair Value of Financial Instruments**

In March 2016, the Company entered into convertible note agreements containing beneficial conversion features with Old Main. 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 agreement (see note 11). 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, 2017 and May 31, 2016.

| | February 28, 2017 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Liabilities | | | | |
| Derivative liabilities | $ - | $ - | $ 167,372 | $ 167,372 |

| | May 31, 2016 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Liabilities | | | | |
| Derivative liabilities | $ - | $ - | $ 418,537 | $ 418,537 |

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

| **Liabilities Measured at Fair Value** | **Derivative Liability** |
|---|---|
| Balance as of May 31, 2016 | $ 418,537 |
| Issuances | 518,720 |
| Conversions/Redemptions | (122,657) |
| Extinguishment of debt – related party | (254,114) |
| Revaluation gain | (393,114) |
| Balance as of February 28, 2017 | $ 167,372 |

During the three months ended February 28, 2017, Old Main, holder of the 2016 Convertible Notes, converted an aggregate of $100,000 of principal, in six transactions, into 828,173 shares of common stock. As a result the Company charged $122,657 of derivative liability to additional paid-in capital (see Note 10).

**Note 13 – Commitment and Contingencies**

The Company, through CLS Labs Colorado, leases 42,392 square feet of warehouse and office space (the "Leased Space") in a building located on 1.92 acres in Denver Colorado. CLS Labs Colorado subleases the Leased Space to Picture Rock Holdings, LLC as part of an arrangement whereby Picture Rock Holdings, LLC and its affiliate will conduct certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, as permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. Total expense for the lease was $139,827 and $163,024 for the nine months ended February 28, 2017 and February 29, 2016.

**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. My Binder has deferred all of the salary payable to him under his employment agreement through February 28, 2017. On July 20, 2016 and March 31, 2017, the Company issued Mr. Binder convertible notes in exchange for $250,000 and $112,500, respectively, in deferred salary, among other amounts owed to Mr. Binder by the Company. As of February 28, 2017 and May 31, 2016, the Company had accrued compensation due to Mr. Binder in the amount of $112,500 and $250,000.

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 PRH, will indirectly receive the benefits of the Colorado Arrangement, as discussed in Note 10. The business to be operated by PRH pursuant to the Colorado Arrangement has not yet produced revenues.

At February 28, 2017 and May 31, 2016, 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 in accrued compensation on the accompanying consolidated balance sheets.

**Note 14 – Subsequent Events**

During March 2017, Old Main, holder of convertible promissory notes, converted an aggregate of $37,500 of principal, in two transactions, into 857,808 shares of common stock.

On March 27, 2017, the Company entered into Amendment #3 to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016 (the "Third Amendment") to further amend the 2016 Convertible Notes in certain respects. In the Third Amendment, the Company agreed to (i) prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,669.95 (the "Settlement Amount"), and (ii) to increase 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. If we fail to pay the Settlement Amount on or before April 1, 2017, Old Main has the right to declare the Third Amendment null and void.

On March 31, 2017, the Company issued convertible promissory notes to Newcan Investment Partners LLC, an entity owned by Frank Koretsky, a director of the company, in the amount of $120,000, and to Jeffrey Binder, an officer and director of the Company, in the amount of $159,500 (the "Notes"), to finalize the terms of repayment with respect to certain loans made to the Company by Newcan Investment Partners LLC and Mr. Binder between January 1, 2017 and February 27, 2017, and certain compensation payable to Mr. Binder as of February 28, 2017. The Notes, which otherwise contain identical terms, are unsecured and bear 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 paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2018. The Notes may be prepaid by the Company with no penalty at any time upon thirty days written notice.

The holder of each Note 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 $0.25 converted, the holder will receive one share of the Company's common stock and a five-year warrant to purchase one share of the Company's common stock at a price of $0.25 per share.

We evaluated subsequent events after the balance sheet date through the date the financial statements were issued. We did not identify any additional material events or transactions occurring during this subsequent event reporting period that required further recognition or disclosure in these financial statements.

**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. CLS Labs had not otherwise commercialized its proprietary process prior to the merger and has not earned any revenues.

We intend to generate revenue through (i) the licensing of our patent pending proprietary methods and processes to others, as in the Colorado Arrangement, (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 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 a consulting subsidiary, CLS Consulting, which will generate revenue by providing consulting services to cannabis-related businesses, including growers, dispensaries and laboratories, and driving business to our processing facilities.

We had a net loss of $2,120,900 for the nine months ended February 28, 2017, resulting in an accumulated deficit as of February 28, 2017 of $6,246,786. These conditions raise substantial doubt about our ability to continue as a going concern.

**Results of Operations for the Three Months Ended February 28, 2017 and February 29, 2016**

**Revenues**

The Company had no revenues during the three months periods ended February 28, 2017 and February 29, 2016.

**General and administrative expenses**

General and administrative expenses decreased $262,119 or approximately 65%, to $144,204 during the three months ended February 28, 2017, compared to $406,323 for the three months ended February 29, 2016. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, compensation costs, bank charges and payroll expenses. The decrease was primarily due to the reduction in noncash compensation, travel and advertising expenses. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

**Professional fees**

Professional fees decreased $243,951, or approximately 71%, to $99,867 during the three months ended February 28, 2017 compared to $343,818 for the three months ended February 29, 2016. This decrease was due primarily in the reduction of legal and investor relations fees for the three months ended February 28, 2017 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, 2017 was $381,149, an increase of $274,550 compared to $106,599 for the three months ended February 29, 2016. Interest expense increased primarily due to an increase in amortization of the discount on convertible debt, which was $308,606 during the current period compared to $81,116 for the prior year.

**Change in fair value of derivative liability**

During the three months ended February 28, 2017, Old Main, a holder of convertible promissory notes, converted an aggregate of $100,000 in principal, in six transactions, into 828,173 shares of commons stock. As a result, we revalued the derivative liability related to these convertible notes and at February 28, 2017. This revaluation resulted in a gain of $244,848, which we included in results of operations for 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, 2017 of $380,372, which is a decrease of $476,368, or approximately 56%, compared to a net loss of $856,740 during the three months ended February 29, 2016.

**Results of Operations for the Nine Months Ended February 28, 2017 and February 29, 2016**

**Revenues**

The Company had no revenues during the nine months periods ended February 28, 2017 and February 29, 2016.

**General and administrative expenses**

General and administrative expenses decreased $435,655, or approximately 47%, to $482,071 during the nine months ended February 28, 2017, compared to $917,726 for the nine months ended February 29, 2016. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, compensation costs, bank charges and payroll expenses. The decrease was primarily due to the reduction in noncash compensation, travel and advertising expenses. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

**Professional fees**

Professional fees decreased $164,322, or approximately 21%, to $603,098 during the nine months ended February 28, 2017 compared to $767,420 for the nine months ended February 29, 2016. This decrease was due primarily to the reduction of legal and investor relations fees for the nine months ended February 28, 2017 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, 2017 was $1,395,511, an increase of $1,218,047 compared to $177,464 for the nine months ended February 29, 2016. Interest expense increased primarily due to an increase in amortization of the discount on convertible debt, which was $1,197,998 during the current period compared to $114,489 for the prior year.

**Loss on modification of debt**

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 agreed to increase 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.

**Change in fair value of derivative liability**

As a result of the November 28, 2016 amendment to our 2016 Convertible Notes and the conversion of $100,000 in aggregate principal on the 2016 Convertible Notes, we revalued the derivative liability related to our 2016 Convertible Notes at February 28, 2017 at $167,372. This revaluation resulted in a gain of $393,114, which we included in results of operations for 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, 2017 of $2,120,900, which is an increase in loss of $258,290, or approximately 14%, compared to a net loss of $1,862,610 during the nine months ended February 29, 2016.

**Liquidity and Capital Resources**

The following table summarizes total current assets, liabilities and working capital at February 28, 2017 compared to May 31, 2016.

| | February 28, 2017 | May 31, 2016 |
|---|---|---|
| Current Assets | $ 28,731 | $ 94,986 |
| Current Liabilities | $ 2,185,957 | $ 1,339,444 |
| Working Capital (Deficit) | $ (2,157,226) | $ (1,244,458) |

At February 28, 2017 and May 31, 2016, we had a working capital deficit of $2,157,226 and $1,244,458, respectively. This working capital deficit occurred primarily because we have not yet commenced earning revenues. We anticipate that we will commence earning revenues in the next three months. During the nine months ended February 28, 2017, we obtained loans from our officers, directors and entities affiliated with Frank Koretsky, one of our directors, to cover operating expenses and expenses related to the Colorado Arrangement. This working capital deficit will likely continue to 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 was $899,291 during the nine months ended February 28, 2017 compared to $871,924 during the nine months ended February 29, 2016. This increase is primarily due to the increase in the amount of amortization of debt discount associated with our convertible notes in the amount of $1,197,998, the increase in the change in fair value of the derivative liability associated with the 2016 Convertible Notes by $393,114, and the loss on modification of the 10% Notes in the amount of $33,334.

Cash flows used in investing activities used $35,013 during the nine months ended February 28, 2017 compared to $44,477 during the nine months ended February 29, 2016. During the nine months ended February 28, 2017, we used these funds toward construction of our Colorado facility.

Cash flows from financing activities provided $852,000 during the nine months ended February 28, 2017 compared to $737,750 during the nine months ended February 29, 2016. The increase in cash flows from financing activities during the nine months ended February 28, 2017, was primarily due to our need to borrow additional funds from our officers, directors and entities affiliated with one of our directors, because we had not yet commenced earning revenue.

On April 29, 2015, we issued a convertible promissory note (the “April 2015 Note”) to an unaffiliated individual in the amount of $200,000. Interest accrues on the April 2015 Note at a rate of 15% per annum. On the first anniversary of the April 2015 Note, all then-accrued interest was due thereunder. Thereafter, principal together with accrued interest is due in eight (8) equal quarterly payments, in arrears, commencing on July 1, 2016. All outstanding principal and any accumulated unpaid interest thereon shall be due and payable on the third anniversary of note. At the holder’s election, at any time prior to payment or prepayment of the April 2015 Note in full, all principal and accrued interest under the April 2015 Note may be converted in whole, but not in part, into our securities. For each dollar converted, the holder shall receive two shares of common stock and a three-year warrant to purchase 1.33 shares of common stock at $0.75 per share. During the nine months ended February 28, 2017 we repaid $75,000 in principal and $49,265 in interest under this note. At February 28, 2017, we owed $127,187 in principal and accrued interest under the April 2015 Note.

On March 18, 2016, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with Old Main, whereby Old Main agreed to purchase an aggregate of up to $500,000 in subscription amount corresponding to an aggregate of up to $555,555 in principal amount of 10% Original Issuance Discount Convertible Promissory Notes (the “10% Notes”) due, subject to the terms therein, in installments as set forth below. The purchase was originally to occur, at our option, in up to five tranches, with the first tranche of $200,000 being purchased on March 18, 2016; the second tranche of $50,000 being purchased on the first Friday, which is a trading day after the date (the “Filing Date”) that a registration statement (the “Registration Statement”) registering shares of common stock of the Company issuable upon conversion or repayment of the 10% Notes, is filed with the SEC; the third tranche of $50,000 being purchased on the first Friday, which is a trading day at least three (3) trading days after the Company receives initial comments from the SEC on the Registration Statement, or the date that we are notified by the SEC that the Registration Statement will not be reviewed; and the fourth and fifth tranches of $100,000 each being purchased after the date that the Registration Statement was declared effective by the SEC (the “SEC Effective Date”). On October 6, 2016, we amended the Purchase Agreement and related documents (the “First Amendment”) to reduce the aggregate principal amount under the 10% Notes from $555,555 to $333,333, all $300,000 in subscription amount of which has been funded and used by us for general working capital purposes. We also increased the interest rate of the 10% Notes from 10% to 15% effective August 1, 2016. Finally, pursuant to the First Amendment, we agreed with Old Main that we would not register the resale of the shares underlying the 2016 Convertible Notes, as defined below, pursuant to the Registration Statement but would utilize the Registration Statement solely to register the resale of shares of common stock sold by us to Old Main pursuant to the equity line agreement, as described below.

As a result of the First Amendment, effective September 1, 2016, we deferred the commencement of amortization payments on the 10% Notes by 30 days. As amended, at the earlier of October 18, 2016 or two (2) trading days after the SEC Effective Date, we must begin to redeem 1/24th of the face amount of the 10% Notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payment may 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) $0.80 (the “Fixed Conversion Price”) or (b) 75% of the lowest daily volume weighted average price of the common stock of (the “VWAP”) in the 20 consecutive trading days immediately prior to the applicable conversion date. At any time after the issue date of the Notes, the holder may convert the 10% Notes into shares of our common stock at the holder’s option. The conversion price will be the Fixed Conversion Price. Subject to certain exclusions, if we sell or issues its common stock or certain common stock equivalents at an effective price per share that is lower than the Fixed Conversion Price, the conversion price will be reduced to equal to such lower price.

On November 28, 2016, we entered into a Second Amendment to the 10% Notes issued on March 18, April 22 and May 27, 2016 (the “Second Amendment”) to amend the Agreements, as amended by the First Amendment, in certain respects. Pursuant to the Second Amendment, among other things, the 10% Notes were converted from installment notes to “balloon” notes, with all principal and interest on the 10% Notes due on September 18, 2017 and the outstanding principal balances of the 10% Notes were increased by 10%; the Fixed Conversion Prices associated with the 10% Notes were changed to variable conversion prices 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 Notes 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 Amendment #3 to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016 (the “Third Amendment”) to further amend the Agreements, as amended by the First Amendment and Second Amendment, in certain respects. In the Third Amendment, we agreed, among other things, to prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,669.95 (the “Settlement Amount”). If we fail to pay the Settlement Amount on or before April 1, 2017, Old Main has the right to declare the Third Amendment null and void.

During the three months ended February 28, 2017, Old Main converted an aggregate of $100,000 in principal of the 10% Notes, in six transactions, into 828,173 share of common stock.

On March 18, 2016, we also 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. As a result of the First Amendment, we also deferred the commencement of amortization payments on the 8% Note so that they now commence at the earlier of February 3, 2017 or on the SEC Effective Date. On such date, we must 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 may be made, at the option of the Company, in cash or, subject to certain conditions, in common stock of the Company 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 sell or issue our common stock or certain common stock equivalents at an effective price per share that is lower than the 8% Note Fixed Conversion Price, the conversion price will be 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 Agreements, as amended by the First Amendment, in certain respects. Pursuant to the Second Amendment, among other things, the 8% Notes were converted from installment notes to "balloon" notes, with all principal and interest on the 8% Notes due on March 18, 2017; the Fixed Conversion Prices associated with the 8% Notes were changed to variable conversion prices 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 Notes 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, 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. If we fail to pay the Settlement Amount on or before April 1, 2017, Old Main has the right to declare the Third Amendment null and void.

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 of the Equity Purchase Agreement to amend the new Commitment Period, which is 24 months from the date of this amendment. Second, the Equity Purchase 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 the Investor to increase or decrease the Beneficial Ownership Limitation.

During July 2016, we issued convertible promissory notes in favor of Mr. Koretsky and Mr. Binder. These notes represent deferred salary of $250,000 due to Mr. Binder and prior advances in the amount of $12,750 from Mr. Binder, and $210,000 in advances from Mr. Koretsky, being reclassified as convertible notes payable. These notes are unsecured and bear interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with accrued interest, beginning on October 1, 2017. At the note holder'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 securities. Upon such an election, the holder will receive one "Unit" for each $1.07 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 $1.07 per share.

On August 3, 2016, we borrowed $150,000 from CLS CO 2016, an entity affiliated with Mr. Koretsky. This note is unsecured and bears interest at the rate of 15% per annum. All interest accruing during the first year will be added to principal. Commencing on November 1, 2017, principal will be payable in four equal quarterly installments, together with accrued interest. At the note holder's election, at any time prior to payment or prepayment of the loan in full, all principal and accrued interest under the loan may be converted, in whole or in part, into our securities. Upon such an election, the holder will receive one "Unit" for each $1.07 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 $1.07 per share.

On January 10, 2017, the Company issued convertible promissory notes to Newcan Investment Partners LLC, an entity owned solely by Frank Koretsky, who is a director of the Company, in the amount of $410,000 and $50,000 and bear interest at the rate of 10% per annum thereafter. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, principal will be payable in eight equal quarterly installments, together with accrued interest. At the note holder's election, at any time prior to payment or prepayment of the loan in full, all principal and accrued interest under the loan may be converted, in whole or in part, into our securities. Upon such an election, the holder will receive one "Unit" for each $1.07 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 $1.07 per share.

On March 31, 2017, we issued convertible promissory notes to Newcan Investment Partners LLC, an entity owned by Frank Koretsky, a director of the company, in the amount of $120,000 (the "Koretsky Note"), and to Jeffrey Binder, an officer and director of the Company, in the amount of $159,500 (the "Binder Note" and, together with the Koretsky Note, the "Notes"), to finalize the terms of repayment with respect to certain loans made to the Company by Newcan Investment Partners LLC and Mr. Binder between January 1, 2017 and February 27, 2017, and certain compensation payable to Mr. Binder as of February 28, 2017. The Notes, which otherwise contain identical terms, are unsecured and bear 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 paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2018. The Notes may be prepaid by the Company with no penalty at any time upon thirty days written notice.

The holder of each Note 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 $.25 converted, the holder will receive one share of the Company's common stock and a five-year warrant to purchase one share of the Company's common stock at a price of $.25 per share.

Over the next twelve months we will require significant additional capital to cover our projected cash flow deficits due to the Colorado Arrangement and related agreements, the repayment of the April 2015 Note, payments on the 2016 Convertible Notes, payments on the loans from Jeffrey Binder and Frank Koretsky, the implementation of our business plan, and the development of alternative revenue sources. Additionally, we anticipate that we will devote resources to research and development related to the refinement of our patent pending proprietary methods and processes and development of new products. We estimate research and development costs of between $50,000 and $100,000 during the next 12 months. Finally, during the next 18-24 months, we plan to construct and open two to three processing facilities for use either by a licensee or by us directly. We anticipate that the build out and opening of each processing facility will require between $1,000,000 and $3,000,000 in capital, with additional capital required for liquidity to cover personnel, equipment, and other operating expenses with respect to each opened facility.

We currently have two employees, Jeffrey Binder, who serves as our Chairman, President and Chief Executive Officer; and Alan Bonsett, who serves as our Chief Operating Officer. In an effort to assist us conserve cash, Mr. Binder converted all accrued salary due to him through February 28, 2017 into a convertible promissory note and a promissory note. Mr. Binder has deferred all of his salary to date for the fiscal year ending May 31, 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 through operations in connection with the Colorado Arrangement. 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. Further, we do not yet know when our processing facility in Colorado will become operational, and accordingly, when we will commence receiving revenues under the Licensing Agreement and Equipment lease from PRH. We have been advised that the solutions to be used in our proprietary conversion process are not included in Colorado's list of designated solutions that may be used for cannabis extraction. We have advised the state that the solutions will be used in the conversion, not the extraction, process. The matter has been referred to the Colorado attorney general's office for consideration. We cannot complete the construction of our processing facility until this matter is resolved. Based on our internal review, similar requirements relating to either extraction or processing do not exist in other relevant states. Assuming this issue is resolved favorably to us, we would anticipate completion of our Colorado processing facility and the commencement of operations by PRH within six months after such resolution, and we would anticipate the receipt of revenues from PRH between 30 and 90 days after it commences operations. As a result of these uncertainties, 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. We anticipate that we will incur operating losses during the next twelve months.

**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 $6,246,786 and had a working capital deficit of $2,157,226 at February 28, 2017. 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 the opening of processing facilities and to 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 valuation of derivative liability: 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 February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). The update requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors will remain largely unchanged. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective approach beginning with the earliest period presented. We are currently evaluating the potential impact of the update on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), to reduce the complexity of certain aspects of the accounting for employee share-based payment transactions. ASU 2016-09 involves changes in several aspects of the accounting for share-based payment transactions, including the accounting for the income tax consequences of share-based awards. For public companies, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update 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.

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, has 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 the evaluation, Mr. Binder concluded that our disclosure controls and procedures are not effective in timely alerting him to material information relating to us that is required to be included in our periodic SEC filings and ensuring that information required to be disclosed by us in the reports we file or submit under the Act is accumulated and communicated to our management, including our chief financial officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure, for the following reasons:

- We do not have an independent board of directors or 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.

None.

## Item 3. Defaults Upon Senior Securities.

None.

## Item 4. Mine Safety Disclosures.

None.

## Item 5. Other Information.

None.

## Item 6. Exhibits.

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| 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 and 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 12, 2017

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

**EXHIBIT 31.1**

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

I, Jeffrey I. Binder, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 12, 2017

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

**EXHIBIT 31.2**

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

I, 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 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.

Date: April 12, 2017

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

**EXHIBIT 32.1**

**Certification by the Principal Executive Officer and 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, 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, 2017 (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.

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| Date: April 12, 2017 | /s/ Jeffrey I. Binder<br>Jeffrey I. Binder<br>Chairman, President and Chief Executive Officer<br>(Principal Executive Officer and Principal Financial 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.