
**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 **November 30, 2018**

or

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

Commission File Number: **000-55546**

CLS HOLDINGS USA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

45-1352286

(I.R.S. Employer Identification No.)

11767 South Dixie Highway, Suite 115, Miami, Florida 33156

(Address of principal executive offices) (Zip Code)

(888) 438-9132

Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

(Check One):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 125,814,095 shares of \$0.0001 par value common stock outstanding as of January 11, 2019.

CLS HOLDINGS USA, INC.
FORM 10-Q
Quarterly Period Ended November 30, 2018

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EXPLANATORY NOTE

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

FORWARD-LOOKING STATEMENTS

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

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

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

AVAILABLE INFORMATION

We file annual, quarterly and special reports and other information with the Securities and Exchange Commission (“SEC”) that can 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, known as EDGAR, through the SEC’s website (www.sec.gov).

Item 1. Financial Statements.

**CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,872,048	\$ 52,964
Accounts Receivable	78,419	-
Inventory	870,984	-
Prepaid expenses and other current assets	176,944	1,410
Total current assets	<u>5,998,395</u>	<u>54,374</u>
Investment	-	2,050,000
Note receivable	5,000,000	-
Interest receivable	24,658	-
Property, plant and equipment, net of accumulated depreciation of \$76,167 and \$2,674	892,070	-
Intangible assets, net of accumulated amortization of \$54,169 and \$828	1,587,913	898
Goodwill	25,742,899	-
Other assets	<u>160,450</u>	<u>-</u>
Total assets	<u>\$ 39,406,385</u>	<u>\$ 2,105,272</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,509,617	\$ 826,621
Accrued compensation, related party	53,750	120,417
Due to related party	17,930	17,930
Accrued interest	164,852	24,748
Accrued interest, related party	5,573	5,143
Notes payable, net of discount of \$132,967 and \$0	3,867,033	310,000
Notes payable, related parties	48,874	75,137
Convertible notes payable, net of discount of \$603,187 and \$57,644	396,813	43,401
Contingent liability	678,111	-
Derivative liability	<u>-</u>	<u>1,265,751</u>
Total current liabilities	6,742,553	2,689,148
Noncurrent liabilities		
Accrued interest, long-term	-	-
Convertible notes payable - Long Term, net of discount of \$4,740,688 and \$0	1,116,312	41,072
Convertible notes payable, related parties, net of discount of \$0 and \$0	<u>-</u>	<u>2,832</u>
Total Liabilities	7,858,865	2,733,052
Commitments and contingencies	-	-
Stockholder's equity		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Common stock, \$0.0001 par value; 250,000,000 shares authorized; 91,150,451 and 50,128,972 shares issued and outstanding at November 30, 2018 and May 31, 2018, respectively	9,116	5,013
Additional paid-in capital	69,211,175	17,628,717
Common stock subscribed	252,506	307,584
Accumulated deficit	<u>(37,925,277)</u>	<u>(18,569,094)</u>
Total stockholder's equity (deficit)	31,547,520	(627,780)
Total liabilities and stockholders' equity (deficit)	<u>\$ 39,406,385</u>	<u>\$ 2,105,272</u>

See accompanying notes to these financial statements.

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

	For the Three Months Ended November 30, 2018	For the Three Months Ended November 30, 2017	For the Six Months Ended November 30, 2018	For the Six Months Ended November 30, 2017
Revenue	\$ 1,976,910	\$ -	\$ 3,156,263	\$ -
Cost of goods sold	<u>1,046,667</u>	<u>-</u>	<u>1,806,611</u>	<u>-</u>
Gross margin	930,243	-	1,349,652	-
Selling, general and administrative expenses	<u>2,977,036</u>	<u>257,379</u>	<u>18,369,166</u>	<u>616,583</u>
Total operating expenses	2,977,036	257,379	18,369,166	616,583
Operating loss	(2,046,793)	(257,379)	(17,019,514)	(616,583)
Other (income) expense:				
Interest expense, net	652,450	806,965	2,336,669	881,831
Gain on settlement of debt	-	-	-	(3,480)
Loss on modification of debt	-	-	-	29,145
Loss on note exchange	-	404,082	-	404,082
Loss on extinguishment of debt	-	989,032	-	989,032
Change in fair value of derivative	<u>-</u>	<u>68,140</u>	<u>-</u>	<u>174,090</u>
Total other expense	652,450	2,268,219	2,336,669	2,474,700
Income (Loss) before income taxes	(2,699,243)	(2,525,598)	(19,356,183)	(3,091,283)
Income tax expense	-	-	-	-
Net income (loss)	<u>\$ (2,699,243)</u>	<u>\$ (2,525,598)</u>	<u>\$ (19,356,183)</u>	<u>\$ (3,091,283)</u>
Net income (loss) per share - basic	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
Net income (loss) per share - diluted	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.24)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding - basic	<u>90,338,339</u>	<u>35,039,032</u>	<u>80,765,385</u>	<u>33,946,441</u>
Weighted average shares outstanding - diluted	<u>90,338,339</u>	<u>35,039,032</u>	<u>80,765,385</u>	<u>33,946,441</u>

See accompanying notes to these financial statements.

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

	For the Six Months Ended November 30, 2018	For the Six Months Ended November 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (19,356,183)	\$ (3,091,283)
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	539	539
Change in fair value of derivative	-	174,090
Warrants issued to placement agent	2,908,673	-
Warrants and Special Warrants issued to penalty	8,084,522	-
Non-cash offering costs of equity financing	403,588	-
Fair value of shares vested by officers	230,888	-
Fair value of shares issued to consultants	490,000	-
Fair value of shares issued in settlement	47,500	-
Loss on modification of debt	-	29,145
(Gain) loss on note exchange	-	404,082
Loss on extinguishment of debt	-	989,032
Gain on settlement of Account Payable	-	(3,480)
Expense from derivative triggering event	12,659	-
Amortization of debt discounts	2,144,328	572,856
Amortization of deferred financing costs	-	3,119
Depreciation and amortization expense	128,531	662
Changes in assets and liabilities:		
Accounts receivable	(42,982)	-
Interest receivable	(24,658)	-
Inventory	(465,031)	-
Prepaid expenses	(72,295)	(25,000)
Other assets	-	50,000
Other current assets	-	(39,500)
Accounts payable and accrued expenses	(376,353)	334,018
Accrued compensation	(16,667)	112,500
Due to related parties	(50,000)	-
Accrued interest, related party	5,211	52,281
Accrued interest	188,736	12,189
Deferred rent liability	1,667	-
Net cash used in operating activities	(5,757,327)	(424,750)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to purchase property, plant and equipment	(35,095)	-
Payments to acquire note receivable	(5,000,000)	-
Payment for investment in Alternative Solutions, net of cash received of \$14,612	(5,982,710)	-
Net cash used in investing activities	(11,017,805)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party convertible notes payable	-	-
Proceeds from related party notes payable	158,615	275,629
Proceeds from convertible notes payable	6,357,000	330,000
Principal payments on notes payable	(310,000)	-
Principal payments on related party notes payable	(109,877)	-
Principal payments on convertible notes payable	(37,500)	-
Proceeds from sale of equity	15,535,978	-
Net cash provided by financing activities	21,594,216	605,629
Net increase in cash and cash equivalents	4,819,084	180,879
Cash and cash equivalents at beginning of period	52,964	78,310
Cash and cash equivalents at end of period	\$ 4,872,048	\$ 259,189
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 8,964	\$ -
Income taxes paid	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		

Convertible note issued for unpaid accrued salary	\$ 75,000	\$ 75,000
Related party notes payable reclassified as related party convertible notes payable	\$ -	\$ 873,996
Beneficial conversion feature on convertible notes	\$ 6,047,322	\$ 508,988
Note payable exchanged for common stock	\$ 1,039,663	\$ 936,478
Shares issued for settlement of accounts payable	\$ -	\$ 6,000
Discount on convertible notes payable due to derivative	-	\$ 802,381
Charge to paid-in capital for par value of shares issued in cashless exercise of warrants	\$ 3,362	\$ -
Reclassify derivative liability to paid-in capital upon adoption of ASU 2017-11	\$ 1,265,751	\$ -
Shares issued for services from stock payable	\$ 25,313	\$ -

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2018
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

Basis of Presentation

These financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States and are expressed in US dollars.

Principals of Consolidation

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

Nature of Business

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

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

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

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

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

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Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of \$250,000 upon signing, which was followed by an additional payment of \$1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of \$5,995,543, a \$4.0 million promissory note due in December 2019 (the "Oasis Note"), and 22,058,823 shares of its common stock (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of \$5,995,543 was less than the \$6,200,000 payment originally contemplated because the Company assumed an additional \$204,457 of liabilities. The Company used the proceeds of its recent Canadian private securities offering to fund the cash portion of the Closing Consideration. The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018. The Company has adopted a fiscal year end of May 31st.

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc. ("IGH"), a Massachusetts not-for-profit corporation, which converted to a for-profit corporation on November 6, 2018 (the "Conversion"), entered into an Option Agreement (the "Option Agreement"). Under the terms of the Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "Option") during the period beginning on the earlier of the date that is one year after the effective date of the Conversion and December 1, 2019, and ending on the date that is 60 days after such date (the "Option Period"). (See note 4). On October 31, 2018, as consideration for the Option, the Company made a loan to IGH (the "IGH Loan"), in the principal amount of \$5,000,000 (the "IGH Loan Amount"), subject to the terms and conditions set forth in that certain Loan Agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender (the "IGH Loan Agreement") (see note 8). The IGH Loan is evidenced by a secured promissory note of IGH (the "IGH Note Receivable"), which bears interest at the rate of 6% per annum and matures on October 31, 2021.

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 \$4,872,048 and \$52,964 as of November 30, 2018 and May 31, 2018, respectively.

Allowance for Doubtful Accounts

The Company generates the majority of its revenues and corresponding accounts receivable from the sale of cannabis, and cannabis related products. The Company evaluates the collectability of its accounts receivable considering a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations to it, the Company records a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount it reasonably believe will be collected. For all other customers, the Company recognizes reserves for bad debts based on past write-off experience and the length of time the receivables are past due. The Company had no bad debts expense during the three and six months ended November 30, 2018 and 2017.

Segment Reporting

Under FASB ASC 280-10-50, the Company operates two business segments: Cannabis Dispensary Segment, and Cannabis Production Segment, and will evaluate additional segment disclosure requirements as it expands its operations.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable values. Our cannabis products consists of prepackaged purchased goods ready for resale, and cannabis flower grown in-house under our cultivation license, along with produced edibles and extracts developed under our production license.

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

Advertising and Marketing Costs

All costs associated with advertising and promoting products are expensed as incurred with the exception of the amortization of the cost of two major video productions. A music video and reality/lifestyle video were both produced in 2017. The remaining amount that hasn't been expensed is listed on the schedule in Note 7. Total recognized advertising and promotion expenses were \$48,284 and \$0 for the three months ended November 30, 2018 and 2017, respectively; total recognized advertising and promotion expenses were \$175,676 and \$0 for the six months ended November 30, 2018 and 2017, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred no research and development costs for the three and six months ended November 30, 2018 and 2017, respectively.

Income Taxes

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

Fair Value of Financial Instruments

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

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

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

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

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

Derivative Financial Instruments

Derivatives are recorded on the condensed consolidated balance sheet at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company uses for determining the fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income (see note 16). On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to equity in the aggregate amount of \$1,265,751.

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Revenue Recognition

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

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

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

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

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

There was no impact on the Company's financial statements as a result of adopting Topic 606 for the three and six months ended November 30, 2018.

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 six months ended November 30, 2018 and 2017.

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

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

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted. The Company does not believe the implementation of this update has had a material impact on its financial statements.

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

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

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

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.

Adoption of Accounting Standards

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

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

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

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

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 \$37,925,277 as of November 30, 2018. The Company's auditors stated in their opinion on the Company's financial statements for the year ended May 31, 2018 that there was substantial doubt about the Company's ability to continue as a going concern, and that further losses were anticipated in the development of the Company's business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company began generating revenue from operations with the Acquisition of Alternative Solutions, LLC on June 27, 2018 (note 3). 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 – Acquisition of Alternative Solutions, LLC

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

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of \$250,000 upon signing, which was followed by an additional payment of \$1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of \$5,995,543, a \$4.0 million promissory note due in December 2019 (see note 13), (the "Oasis Note"), and 22,058,823 shares of its common stock (see note 15), (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of \$5,995,543 was less than the \$6,200,000 payment originally contemplated because the Company assumed an additional \$204,457 of liabilities. The Company used the proceeds of its recent Canadian private securities offering to fund the cash portion of the Closing Consideration (see note 15). The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018.

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

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

The sellers are also entitled to a \$1,000,000 payment from the Company on May 30, 2020 if the Oasis LLCs have maintained an average revenue of \$20,000 per day during the 2019 calendar year. The fair value of this contingent consideration was \$678,111 as determined by the Company's outside valuation consultants. This amount is recorded as contingent liability on the Company's balance sheet at November 30, 2018.

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

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

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

Pro forma results

The following table sets forth the unaudited pro forma results of the Company as if the acquisition of the Oasis LLCs was effective on the first day of each of the three and six months periods presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

	Three months ended November 30,	
	2018	2017
	(unaudited)	(unaudited)
Revenues	\$ 1,976,910	\$ 1,928,265
Net loss	\$ (10,771,264)	\$ (10,734,044)
Basic net income per share	\$ (0.12)	\$ (0.18)
Diluted net income per share	\$ (0.12)	\$ (0.18)
Weighted average shares - basic	90,338,339	58,372,855
Weighted average shares - diluted	90,338,339	58,372,855

	Six months ended November 30,	
	2018	2017
	(unaudited)	(unaudited)
Revenues	\$ 3,843,783	\$ 3,311,457
Net loss	\$ (19,353,778)	\$ (8,453,557)
Basic net income per share	\$ (0.24)	\$ (0.25)
Diluted net income per share	\$ (0.24)	\$ (0.25)
Weighted average shares - basic	80,765,385	57,280,264
Weighted average shares - diluted	80,765,385	57,280,264

Note 4 – In Good Health Loan and Option Transaction

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

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

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

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

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

Note 5 – Accounts Receivable

Accounts receivable was \$78,419 and \$0 at November 30, 2018 and May 31, 2018, respectively. No allowance for doubtful accounts was necessary during the three and six months ended November 30, 2018 and 2017.

Note 6 – Inventory

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

	November 30, 2018	May 31, 2018
Raw materials	\$ 257,985	\$ -
Finished goods	612,999	-
Total	<u>\$ 870,984</u>	<u>\$ -</u>

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

Note 7 – Prepaid Expenses and Other Current Assets

Prepaid expenses consisted of the following at November 30, 2018 and May 31, 2018:

	November 30, 2018	May 31, 2018
Prepaid insurance	\$ 26	\$ -
Prepaid advertising	5,946	-
Prepaid license fees	62,685	-
Prepaid legal fees	1,410	1,410
Prepaid general and administrative expenses	5,743	-
Deposits on inventory	66,000	-
Deposits on exterior signs	35,134	-
Total	<u>\$ 176,944</u>	<u>\$ 1,410</u>

Note 8 – Notes ReceivablePRH Note Receivable

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

During the year ended May 31, 2018, the Company received a payment of \$50,000 on the PRH Note. As a result, the Company has reduced the impairment of the note by \$50,000 to reflect this payment. The receivable is recorded on the balance sheet as of November 30, 2018 in the amount of \$0, net of allowance in the amount of \$450,000.

IGH Note Receivable

On October 31, 2018, in connection with an option to purchase transaction (see note 4), the Company loaned \$5,000,000 (the “IGH Note”) to In Good Health, Inc., a Massachusetts not-for-profit corporation (“IGH”); on November 6, 2018, IGH converted to a for-profit corporation. This Note bears interest at the rate of 6% per annum. On March 1, 2020 (the “Initial Payment Date”), all accrued interest shall be added to the outstanding principal due hereunder and such amount shall be payable in eight equal quarterly installments, commencing on the Initial Payment Date, together with interest accruing after the Initial Payment Date. The IGH Note shall mature and all outstanding principal, accrued interest and any other amounts due hereunder, shall become due and payable in full on the third anniversary of the IGH Note. The IGH Note was issued in connection with a loan agreement and security agreement between the Company and IGH, and an option agreement between the Company and IGH, among others (the “IGH Option Agreement”), in both cases dated as of October 31, 2018 and the other agreements and documents executed and/or delivered in connection therewith (collectively the “IGH Loan Documents”), and is secured by the collateral described in the Loan Documents and by such other collateral as may in the future be granted to the Holder to secure the IGH Note. During the three months ended November 30, 2018, the Company recorded interest income in the amount of \$24,658 in connection with the IGH Note. At November 30, 2018, principal in the amount of \$5,000,000 and interest receivable in the amount of \$24,658 due under the IGH Note are classified as non-current assets on the Company’s balance sheet.

Note 9 – Property, Plant and Equipment

Property, plant and equipment consisted of the following at November 30, 2018 and May 31, 2018.

	November 30, 2018	May 31, 2018
Office equipment	135,138	2,674
Furniture and fixtures	30,895	-
Leasehold improvements	\$ 802,204	\$ -
Less: accumulated depreciation	(76,167)	(2,674)
Property, plant, and equipment, net	<u>\$ 892,070</u>	<u>\$ -</u>

During the six months ended November 30 2018, the Company acquired property, plant, and equipment with an aggregate fair value of \$933,142 with the acquisition of Alternative Solutions, LLC. See note 3.

Depreciation of property, plant, and equipment was \$48,658 and \$223 for the three months ended November 30, 2018 and 2017 respectively. Depreciation of property, plant, and equipment was \$76,167 and \$446 for the six months ended November 30, 2018 and 2017 respectively.

Note 10 – Intangible Assets

Intangible assets consisted of the following at November 30, 2018 and May 31, 2018.

November 30, 2018			
	Gross	Accumulated Amortization	Net
Intellectual Property	\$ 319,600	\$ (13,317)	\$ 306,283
License & Customer Relations	990,000	(20,624)	969,376
Tradenames - Trademarks	301,000	(12,542)	288,458
Non-compete Agreements	27,000	(5,626)	21,374
Domain Names	4,482	(2,060)	2,422
Total	<u>\$ 1,642,082</u>	<u>\$ (54,169)</u>	<u>\$ 1,587,913</u>

May 31, 2018			
	Gross	Accumulated Amortization	Net
Intellectual Property	\$ -	\$ -	\$ -
License & Customer Relations	-	-	-
Tradenames - Trademarks	-	-	-
Non-compete Agreements	-	-	-
Domain names	1,726	(828)	898
Total	<u>\$ 1,726</u>	<u>\$ (828)</u>	<u>\$ 898</u>

Total amortization expense charged to operations for the three months ended November 30, 2018 and 2017 was \$31,413 and \$108, respectively. Total amortization expense charged to operations for the six months ended November 30, 2018 and 2017 was \$52,364 and \$216, respectively.

Amount to be amortized during the twelve months ended November 30,		
2019	\$	127,120
2020		119,796
2021		111,560
2022		111,560
2023		111,560
Thereafter		1,006,317
	<u>\$</u>	<u>1,587,913</u>

Note 11 – Other Assets

Other assets included the following as of November 30, 2018 and May 31, 2018, respectively:

	November 30, 2018	May 31, 2018
Security deposits	160,450	-
	<u>\$ 160,450</u>	<u>\$ -</u>

Note 12 – Accounts Payable and Accrued Liabilities

Accrued expenses consisted of the following at November 30, 2018 and May 31, 2018:

	November 30, 2018	May 31, 2018
Trade accounts payable	661,217	\$ 726,457
Accrued payroll and payroll taxes	196,785	44,465
Accrued liabilities	513,908	-
Deferred rent liability	137,707	55,699
Total	<u>\$ 1,509,617</u>	<u>\$ 826,621</u>

Note 13 – Notes Payable and Convertible Notes Payable

Notes Payable

	November 30, 2018	May 31, 2018
On February 7, 2018, the Company issued a note payable to Todd Blatt in the amount of \$210,000 the “Blatt Note”). This note accrues interest at a rate of 6% per annum and is due on February 7, 2019. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$1,726 on the Blatt Note. On July 20, 2018, the Company made principal and interest payments in the amount of \$210,000 and \$5,627, respectively, on the Blatt Note.	\$ -	\$ 210,000
On February 7, 2018, the Company issued a note payable to AJG Group in the amount of \$200,000 the “AJG Note”). This note accrues interest at a rate of 6% per annum and is due on February 7, 2019. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$641 on the AJG Note. On July 9, 2018, the Company made principal and interest payments in the amount of \$100,000 and \$3,337, respectively, on the AJG Note.	-	100,000
Secured note payable to Serenity Wellness Enterprises, LLC, as nominee (“Oasis Note”). dated June 27, 2018 in the principal amount of \$4,000,000 and bearing interest at a rate of 6% per annum was issued pursuant to the Membership Interest Purchase Agreement with Alternative Solutions. The note is due December 4, 2019, but may be prepaid at any time without penalty. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs.		
The Company recognized an original issue discount of \$189,180 on the Oasis Note. During the six months ended November 30, 2018, \$56,213 of this discount was charged to operations. During six months ended November 30, 2018, the Company accrued interest in the amount of \$104,000 on the Oasis Note.	4,000,000	-
Total – Notes Payable	\$ 4,000,000	\$ 310,000
Less: Discount	(132,967)	-
Notes Payable, Net of Discounts	\$ 3,867,033	\$ 310,000
Current portion	\$ 3,867,033	\$ 310,000
Long term portion	\$ -	\$ -

Related Party Convertible Demand Notes Payable

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

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

On January 10, 2018, effective December 1, 2017, the Company entered into an Omnibus Amendment to Convertible Notes (the “Second Omnibus Loan Agreement”) with Jeffrey I. Binder, an officer and director of the Company, and Newcan Investment Partners LLC, an entity owned by Frank Koretsky, a director of the Company. The Second Omnibus Loan Agreement provides that the conversion price of all outstanding convertible promissory notes issued to either Mr. Binder or Newcan Investment Partners, LLC as of the date of the Agreement would be increased from \$0.25 to \$0.3125 per share of common stock. The remaining terms of such notes remain unchanged.

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The following tables summarize the Company's loan balances at November 30, 2018 and May 31, 2017:

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
Notes payable to Jeffrey Binder, an officer and director of the Company, for advances to fund operations (the "Binder Funding Notes"). The Binder Funding Notes bear interest at a rate of 10% per annum, have no maturity date and are due on demand. Effective May 31, 2017, pursuant to the Omnibus Loan Amendment, a conversion feature was added to the Binder Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of \$0.25 per share.		
Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount in the amount of \$35,023 related to the revaluation of the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During the twelve months ended May 31, 2018, Mr. Binder advanced a total of \$440,579 to the Company under the Binder Funding Notes. During the year ended May 31, 2018, principal in the amount of \$280,198 and accrued interest in the amount of \$5,188 was transferred out of the Binder Funding Notes and used to fund four new convertible notes payable to Mr. Binder, which were converted or repaid as of May 31, 2018. Also during the year ended May 31, 2018 the Company made principal payments in the aggregate of \$237,794 under the Binder Funding Notes. During the year ended May 31, 2018, the Company accrued interest in the amount of \$7,364 on the Binder Funding Notes. During the year ended May 31, 2018, discounts in the amount of \$385,637 related to the beneficial conversion feature of the Binder Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During the six months ended November 30, 2018, Mr. Binder advanced a total of \$158,615 to the Company under the Binder Funding Notes. During the six months ended November 30, 2018, the Company made principal payments to in the amount of \$109,876 under the Binder Funding Notes. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$979 on the Binder Funding Notes. During the six months ended November 30, 2018, discounts in the aggregate amount of \$158,615 related to the beneficial conversion feature of the Binder Funding Notes were charged to additional-paid in capital and amortized to interest expense.	\$ 48,874	\$ 137

	<u>November 30,</u> <u>2018</u>	<u>May 31,</u> <u>2018</u>
Notes payable to Newcan Investment Partners, LLC (“Newcan”), an entity owned by Frank Koretsky, a director of the Company, for advances to fund operations (the “Newcan Funding Notes”). The Newcan Funding Notes bear interest at a rate of 10% per annum, have no maturity date and are due on demand. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Newcan Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of \$0.25 per share.		
Effective December 1, 2017, pursuant to the Second Omnibus Loan Amendment, the conversion price was increased from \$0.25 per share to \$0.3125 per share and a discount in the amount of \$6,120 related to the revaluation of the beneficial conversion feature of the Newcan Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During the twelve months ended May 31, 2018, Newcan advanced a total of \$290,000 to the Company under the Newcan Funding Notes. During the year ended May 31, 2018, principal in the amount of \$836,658 and accrued interest in the amount of \$25,018 was transferred out of the Newcan Funding Notes and used to fund four new convertible notes payable to Newcan, which were converted or repaid as of May 31, 2018.). During the year ended May 31, 2018, the Company accrued interest in the amount of \$16,681 on the Newcan Funding Notes. During the year ended May 31, 2018, discounts in the amount of \$210,120 related to the beneficial conversion feature of the Newcan Funding Notes was charged to additional paid-in capital and amortized to interest expense.		
During the six months ended November 30, 2018, principal in the amount of \$75,000 and accrued interest in the amount of \$1,931 was transferred out of the Newcan Funding Notes and used to create a new convertible note payable to Newcan (“Newcan Convertible Note 8”). During the six months ended November 30, 2018, the Company accrued interest in the amount of \$1,377 on the Newcan Funding Notes.	-	75,000
Total – Demand Convertible Notes Payable, Related Parties	\$ 48,874	\$ 75,137
Total – Demand Convertible Notes Payable, Related Parties - Current portion	\$ 48,874	\$ 75,137
Total – Demand Convertible Notes Payable, Related Parties - Long term portion	\$ -	\$ -

Convertible Notes Payable, Related Parties

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
<p>Convertible promissory note payable to David Lamadrid (the “Lamadrid Note”) dated February 20, 2018 in the principal amount of \$31,250 and bearing interest at a rate of 8% per annum. The Lamadrid Note is due eighteen months from the date of issue. Mr. Lamadrid may, at his option, convert all or a portion of the Lamadrid Note and accrued but unpaid interest into shares of common stock at a conversion price of \$0.3125 per share. The Lamadrid Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Lamadrid Note will be reset to such lower price. The Company recognized a discount of \$31,250 on the Lamadrid Note related to the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2018, \$942 of this discount was charged to operations. During the twelve months ended May 31, 2018, the Company accrued interest in the amount of \$685 on this note.</p>		
<p>During the six months ended November 30, 2018, interest in the amount of \$562 was accrued on the Lamadrid note. During the six months ended November 30, 2018, the Lamadrid Note, in the amount of \$32,497, of which \$31,250 was principal and \$1,247 was accrued interest, was converted into 103,989 shares of common stock. During the six months ended November 30, 2018 the remaining discount in the amount of \$30,308 was charged to operations.</p>	\$	- \$ 31,250
<p>Unsecured convertible note issued to Jeffery Binder, an officer and director of the Company, dated April 6, 2018 in the original principal amount of \$37,500 (the “Binder Convertible Note 9”). The Binder Convertible Note 9 was funded with the conversion of \$37,500 of unpaid accrued salary due to Mr. Binder. This note bears interest at the rate of 10% per annum. No interest payments are required until July 1, 2019, at which time all accrued interest becomes due and payable. Commencing October 1, 2019, the first of eight principal payments in the amount of \$4,688 will become due; subsequent 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 share of common stock for each \$0.3125 converted. The Company recognized a discount of \$37,500 on the Binder Convertible Note 9 related to the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2018, the Company amortized \$1,890 of this discount to interest expense.</p>		
<p>During the twelve months ended May 31, 2018 and 2017, interest in the amount of \$565 and \$0 was accrued on Binder Convertible Note 9, respectively.</p>		
<p>During the six months ended November 30, 2018, interest in the amount of \$699 was accrued on the Binder Convertible Note 9. During the six months ended November 30, 2018, the Company made a principal payment in the amount of \$37,500 on the Binder Convertible Note 9. During the six months ended November 30, 2018 the remaining discount in the amount of \$35,610 was charged to operations.</p>		- 37,500

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
<p>Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated, August 6, 2018 in the original amount of \$75,000 (the “Newcan Convertible Note 8”). The Newcan Convertible Note 8 was funded with the conversion of \$75,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until January 1, 2020, at which time all of the accrued interest becomes due and payable. Commencing on January 1, 2020, the first of eight principal payments in the amount of \$9,375 will become due; subsequent principal payments will become due on the first day of each April, July, October, and January until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.40 converted. The Company recognized a discount of \$58,594 on the Newcan Convertible Note 8 related to the value of the beneficial conversion feature at the time of issuance.</p> <p>During the six months ended November 30, 2018, the Company accrued interest expense in the amount of \$1,603 on this note. During the six months ended November 30, 2018, the note holder converted \$78,534, of which \$75,000 was principal and \$3,534 was accrued interest into 196,336 shares of common stock. Also during the six months ended November 30, 2018, the remaining discount in the amount of \$57,322 was charged to interest expense</p>	-	-
Total – Convertible Notes Payable, Related Parties	\$ -	\$ 68,750
Less: Discount	-	(65,918)
Convertible Notes Payable, Related Parties, Net of Discounts	<u>\$ -</u>	<u>\$ 2,832</u>
Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion	\$ -	\$ 2,832
Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion	-	-

Convertible Notes Payable

	<u>November 30, 2018</u>	<u>May 31, 2018</u>
<p>Convertible promissory note payable to Darling Capital, LLC (the “Darling Note”) dated February 5, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$500,000 and the Darling Note has an original issue discount of \$50,000. The Darling Note is due eighteen months from the date of issue. Darling may, at its option, convert all or a portion of the Darling Note and accrued but unpaid interest into shares of common stock at a conversion price of \$0.3125 per share. The Darling Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Darling Note will be reset to such lower price. The Company recognized a discount of \$550,000 on the Darling Note related to the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2018, \$40,427 of this discount was charged to operations. During the twelve months ended May 31, 2018, the Company accrued interest in the amount of \$13,863 on this note.</p> <p>During the six months ended November 30, 2018, the Company accrued interest in the amount of \$1,447 on this note. During the six months ended November 30, 2018, the holder of the Darling Note converted \$565,000, of which \$550,000 was principal and \$15,000 was accrued interest, into 1,808,000 shares of common stock. Also during the six months ended November 30, 2018, the remaining discount in the amount of \$509,573 was charged to operations.</p>	\$	- \$ 550,000
<p>Convertible promissory note payable to Efrat Investments, LLC (the “Efrat Note”) dated February 12, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$50,000 and the Efrat Note has an original issue discount of \$5,000. The Efrat Note is due eighteen months from the date of issue. Efrat may, at its option, convert all or a portion of the Efrat Note and accrued but unpaid interest into shares of common stock at a conversion price of \$0.3125 per share. The Efrat Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.3125 per share of common stock, the conversion price of the Efrat Note will be reset to such lower price. The Company recognized a discount of \$55,000 on the Efrat Note related to the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2018, \$2,974 of this discount was charged to operations. During the twelve months ended May 31, 2018, the Company accrued interest in the amount of \$1,302 on this note.</p> <p>During the six months ended November 30, 2018, the Company accrued interest in the amount of \$898 on this note. During the six months ended November 30, 2018, the holder of the Efrat Note converted \$57,200, of which \$55,000 was principal and \$2,200 was accrued interest into 183,040 shares of common stock. Also during the six months ended November 30, 2018, the remaining discount in the amount of \$52,026 was charged to operations.</p>	-	\$ 55,000

**November 30,
2018**

**May 31,
2018**

Convertible promissory note payable to YA II PN, Ltd. (the “YA II PN Note”) dated May 14, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$750,000, and the note is due on November 14, 2019. YA II PN may, at its option, convert all or a portion of the YA II PN Note and accrued but unpaid interest into shares of common stock at a conversion price of \$0.40 per share. The YA II PN Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.40 per share of common stock, the conversion price of the YA II PN Note will be reset to such lower price. The Company recognized a discount of \$750,000 related to the beneficial conversion feature at the time of issuance. Commencing on December 1, 2018, absent certain exceptions, the first of eight payments in the amount of \$93,750 will become due; subsequent payments will become due on the first day of each of the following months until paid in full. During the twelve months ended May 31, 2018, \$23,224 of this discount was charged to operations. During the twelve months ended May 31, 2018, the Company accrued interest in the amount of \$2,795 on this note.

During the six months ended November 30, 2018, a reset event occurred. As a result, the conversion price of the YA II PN Note was reduced to \$0.34 per share of common stock. This was considered a material modification of the note; the remaining balance of the discount to the note in the amount of \$699,628 was charged to interest expense, a new discount in the amount of \$750,000 was charged to additional paid-in capital, and \$124,581 of the new discount was amortized to interest expense. Also during the six months ended November 30, 2018, the Company accrued interest expense in the amount of \$29,205 on the YA II PN Note. During the six months ended November 30, 2018, the holder of the YA II PN Note converted principal in the amount of \$250,000 and accrued interest in the amount of \$30,247 into 700,616 shares of common stock.

500,000

750,000

Unsecured convertible note issued to Jay Lasky (the “Lasky Note”), dated May 3, 2018 in the original principal amount of \$25,000. This note bears interest at the rate of 10% per annum. No interest payments are required until July 1, 2019, at which time all accrued interest becomes due and payable. Commencing on October 1, 2019, the first of eight principal payments in the amount of \$3,125 will become due; subsequent payments will become due on the first day of each January, April, July and October until paid in full. The Lasky Note and accrued interest under the note may be converted, in whole or in part, into one share of common stock for each \$0.40 converted. The Company recognized a discount of \$7,301 on the Lasky Note related to the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2018, \$149 of this discount was charged to operations. During the twelve months ended May 31, 2018, the Company accrued interest in the amount of \$192 on this note.

During the six months ended November 30, 2018, \$7,152 of the discount was charged to operations. Also during the six months ended November 30, 2018, the Company accrued interest in the amount of \$993 on this note. During the six months ended November 30, 2018, the holder of the Lasky Note converted \$26,185, of which \$25,000 was principal and \$1,185 was accrued interest into 65,462 shares of common stock.

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25,000

	November 30, 2018	May 31, 2018
<p>Convertible promissory note payable to YA II PN, Ltd. (the “YA II PN Note 2”) dated July 20, 2018 and bearing interest at a rate of 8% per annum. The lender loaned the Company \$500,000, and the note is due on November 14, 2019. YA II PN may, at its option, convert all or a portion of the YA II PN Note 2 and accrued but unpaid interest into shares of common stock at a conversion price of \$0.40 per share. The YA II PN Note 2 also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than \$0.40 per share of common stock, the conversion price of the YA II PN Note 2 will be reset to such lower price. The Company recognized a discount of \$362,500 related to the beneficial conversion feature at the time of issuance. Commencing on December 1, 2018, absent certain exceptions, the first of eight payments in the amount of 62,500 will become due; subsequent payments will become due on the first day of each of the following months until paid in full. During the six months ended November 30, 2018, \$100,026 of this discount was charged to operations. Also during the six months ended November 30, 2018, the Company accrued interest in the amount of \$18,685 on this note.</p>	500,000	-
<p>Convertible debenture in the principal amount of \$4,000,000 (the “U.S. Convertible Debenture 1”) dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 1. The U.S. Convertible Debenture 1 matures on a date that is three years following issuance. The U.S. Convertible Debenture 1 is convertible into units (the “Convertible Debenture Units”) at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 1 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 1 is an unsecured obligation of the Company and ranks <i>pari passu</i> in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$3,254,896 on the U.S. Convertible Debenture 1. During the six months ended November 30, 2018, \$33 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$26,301 on the U.S. Convertible Debenture 1.</p>	4,000,000	-
<p>Convertible debenture in the principal amount of \$1,000,000 (the “U.S. Convertible Debenture 2”) dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 2. The U.S. Convertible Debenture 2 matures on a date that is three years following issuance. The U.S. Convertible Debenture 2 is convertible into Convertible Debenture Units at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 2 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 2 is an unsecured obligation of the Company and ranks <i>pari passu</i> in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$813,724 on the U.S. Convertible Debenture 2. During the six months ended November 30, 2018, \$28 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$6,575 on the U.S. Convertible Debenture 2.</p>	1,000,000	-

Convertible debenture in the principal amount of \$100,000 (the “U.S. Convertible Debenture 3”) dated October 24, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 3. The U.S. Convertible Debenture 3 matures on a date that is three years following issuance. The U.S. Convertible Debenture 3 is convertible into Convertible Debenture Units at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 3 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 3 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$75,415 on the U.S. Convertible Debenture 3. During the six months ended November 30, 2018, \$20 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$811 on the U.S. Convertible Debenture 3.

100,000

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Convertible debenture in the principal amount of \$532,000 (the “U.S. Convertible Debenture 4”) dated October 25, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 4. The U.S. Convertible Debenture 4 matures on a date that is three years following issuance. The U.S. Convertible Debenture 4 is convertible into Convertible Debenture Units at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 4 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 4 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$416,653 on the U.S. Convertible Debenture 4. During the six months ended November 30, 2018, \$26 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$4,198 on the U.S. Convertible Debenture 4.

532,000

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Convertible debenture in the principal amount of \$150,000 (the “U.S. Convertible Debenture 5”) dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 5. The U.S. Convertible Debenture 5 matures on a date that is three years following issuance. The U.S. Convertible Debenture 5 is convertible into Convertible Debenture Units at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 5 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 5 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$120,100 on the U.S. Convertible Debenture 5. During the six months ended November 30, 2018, \$22 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$1,151 on the U.S. Convertible Debenture 5.

150,000

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	<u>November 30, 2018</u>	<u>May 31, 2018</u>
Convertible debenture payable in the principal amount of \$75,000 (the “U.S. Convertible Debenture 6”) dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 6. The U.S. Convertible Debenture 6 matures on a date that is three years following issuance. The U.S. Convertible Debenture 6 is convertible into Convertible Debenture Units at a conversion price of \$0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of \$1.10. The U.S. Convertible Debenture 6 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 6 is an unsecured obligation of the Company and ranks <i>pari passu</i> in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$60,049 on the U.S. Convertible Debenture 6. During the six months ended November 30, 2018, \$19 of this discount was charged to operations. During the six months ended November 30, 2018, the Company accrued interest in the amount of \$575 on the U.S. Convertible Debenture 6.	75,000	-
Total - Convertible Notes Payable	\$ 6,857,000	\$ 1,380,000
Less: Discount	(5,343,875)	(1,295,527)
Convertible Notes Payable, Net of Discounts	<u>\$ 1,513,125</u>	<u>\$ 84,473</u>
Total - Convertible Notes Payable, Net of Discounts, Current Portion	\$ 396,813	\$ 43,401
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	\$ 1,116,312	\$ 41,072
Discounts on notes payable amortized to interest expense – 3 months ended November 30, 2018 and 2017, respectively	\$ 1,598,501	\$ 530,796
Discounts on notes payable amortized to interest expense – 6 months ended November 30, 2018 and 2017, respectively	\$ 2,144,333	\$ 572,856

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Beneficial Conversion Features

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

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

Note 14 – Contingent Liability

The terms of the Company's acquisition of Alternative Solutions, LLC include a payment of \$1,000,000 contingent upon the Oasis LLCs achieving certain revenue targets. (see note 3). The fair value of this contingent consideration at the time of the Acquisition Agreement was \$678,111 as determined by the Company's outside valuation consultants. Management has reviewed the value of the contingent consideration, and has concluded that no adjustment is necessary at November 30, 2018,

Note 15 – 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 91,150,451 and 50,128,972 shares of common stock issued and outstanding as of November 30 2018 and May 31, 2018, respectively.

The Company recorded imputed interest of \$271 and \$271 during the three months ended November 30, 2018 and 2017 on related party payables due to a director and officer of the Company. The Company recorded imputed interest of \$539 and \$539 during the six months ended November 30, 2018 and 2017 on related party payables due to a director and officer of the Company, and charged this amount to additional paid-in capital.

Stock Issued upon Conversion of Notes Payable

During the six months ended November 30, 2018, Darling Capital, holder of a convertible promissory note, converted a total of \$565,000, which consisted of \$550,000 of principal and \$15,000 of accrued interest, into 1,808,000 shares of common stock.

During the six months ended November 30, 2018, Efrat Investments, holder of a convertible promissory note, converted a total of \$57,200, which consisted of \$55,000 of principal and \$2,200 of accrued interest, into 183,040 shares of common stock.

During the six months ended November 30, 2018, David Lamadrid, holder of a convertible promissory note, converted a total of \$32,497, which consisted of \$31,250 of principal and \$1,247 of accrued interest, into 103,989 shares of common stock.

During the six months ended November 30, 2018, Jay Lasky, holder of a convertible promissory note, converted a total of \$26,185, which consisted of \$25,000 of principal and \$1,185 of accrued interest, into 65,462 shares of common stock.

During the six months ended November 30, 2018, Newcan, holder of a convertible promissory note, converted a total of \$78,534, which consisted of \$75,000 of principal and \$3,534 of accrued interest, into 196,336 shares of common stock.

During the six months ended November 30, 2018, YA II PN, holder of a convertible promissory note, converted a total of \$280,247, which consisted of \$250,000 of principal and \$30,247 of accrued interest, into 700,616 shares of common stock.

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Stock Issued for Services

On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, a director of the Company, a cash payment in the amount of \$250,000 and 700,000 shares of the Company's restricted common stock in recognition of Mr. Glashow's efforts, through Star Associates, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions, LLC. The shares were valued at \$490,000 and were charged to operations during the six months ended November 30, 2018.

On June 24, 2018, pursuant to the terms of a severance agreement between the Company and David Lamadrid, the Company issued 600,000 shares of restricted common stock to Mr. Lamadrid. These shares were valued at \$264,000, \$213,320 of which was previously expensed and the remaining \$50,680 of which was charged to operations during the six months ended November 30, 2018.

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

Stock Issued for Acquisition

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

Special Warrants Issued in Offering

On June 20, 2018, the Company executed an Agency Agreement with Canaccord Genuity Corp. and closed on a private offering of its special warrants for aggregate gross proceeds of C\$13,037,859 (USD\$9,785,978). Pursuant to the offering, the Company issued 28,973,020 special warrants at a price of C\$0.45 (USA\$0.34) per special warrant. Each special warrant was automatically exercisable, for no additional consideration, into units of the Company on the earlier of: (i) the date that was five business days following the date on which the Company obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of the Company's acquisition of all of the membership interests in Alternative Solutions, LLC, known as Oasis Cannabis.

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

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

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

On November 30, 2018, all of the special warrants were automatically converted into 33,465,110 shares of common stock and warrants to purchase 33,465,110 shares of common stock for CD\$0.65 per share.

Stock Issued in Navy Capital Offering

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

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

Stock Issued to Officers

On July 27, 2018, the Company granted 25,000 shares of restricted common stock to its Chief Financial Officer. These shares vested four months after issuance. The shares were valued at \$17,500, and were amortized over the vesting period. As of November 30, 2018, these shares had not been issued. As of November 30, 2018, \$17,500 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at November 30, 2018.

On July 31, 2018, the Company granted the Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at \$350,000 and will be amortized over the vesting period. As of November 30, 2018, \$147,917 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at November 30, 2018.

On July 31, 2018, the Company granted the Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at \$35,000 and will be amortized over the vesting period. As of November 30, 2018, \$14,792 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at November 30, 2018.

Stock Issued upon Cashless Exercise of Warrants

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

On September 6, 2018, the Company issued 13,684 shares of common stock upon the cashless exercise of 40,000 warrants at an exercise price of \$0.75 per share.

On November 14, 2018, the Company issued 5,867 shares of common stock upon the cashless exercise of 25,000 warrants at an exercise price of \$0.75 per share.

Stock Issued for Settlement

On November 1, 2018, the Company issued 50,000 shares of common stock with a fair value of \$47,500 pursuant to a legal settlement. There was no gain or loss associated with this transaction.

Additional Paid-in Capital

During the six months ended November 30, 2018, the Company recorded discounts on two convertible notes payable relating to beneficial conversion features in the aggregate amount of \$362,500 on the YA II PN Note 2, and \$58,594 on the Newcan Convertible Note 8. Also during the six months ended November 30, 2018, a reset event occurred with regard to the YAII PN Note.

During the six months ended November 30, 2018, the Company recorded an original issue discount on the Serenity Wellness Note in the amount of \$81,961.

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in the previously issued convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to additional paid-in capital in the aggregate amount of \$1,265,751. On June 20, 2018, a reset event occurred in connection with the YA II PN Note (see note 13), and the Company charged the change in fair value of the conversion feature in the amount of \$35,833 to additional paid-in capital. This was considered a material modification of the note, and the Company created a new discount to this note in the amount of \$750,000, which was charged to additional paid-in capital.

During the six months ended November 30, 2018, the Company recorded discounts on six convertible debentures relating to beneficial conversion features as follows: a discount of \$3,254,863 was recorded on the U.S. Convertible Debenture 1; a discount of \$813,696 was recorded on the U.S. Convertible Debenture 2; a discount of \$75,395 was recorded on the U.S. Convertible Debenture 3; a discount of \$416,627 was recorded on the U.S. Convertible Debenture 4; a discount of \$120,078 was recorded on the U.S. Convertible Debenture 5; and a discount of \$60,030 was recorded on the U.S. Convertible Debenture 6.

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Warrants

On June 27, 2018, the Company incurred a penalty in connection with the WestPark Offering due to the late filing of the registration statement that included the resale of the securities that were sold in such offering. As a result of the penalty, the Company issued three-year common stock warrants to purchase an aggregate of 1,368,250 shares of the Company's common stock at an exercise price of \$0.50 per share. In addition, the Company reduced the exercise price of the common stock purchase warrants previously issued to the investors in the WestPark Offering from \$0.75 per share to \$0.50 per share. The fair value of the penalty was \$941,972; this amount was charged to operations during the three months ended August 31, 2018.

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

On July 20, 2018, in connection with the Company's sale of a convertible debenture, the Company issued to YA II PN, Ltd. a five-year common stock purchase warrant to purchase 1,250,000 shares of the Company's common stock at an initial exercise price of \$0.60 per share.

On August 6, 2018, the Company issued three-year common stock purchase warrants to purchase an aggregate of 7,500,000 shares of the Company's common stock at an exercise price of \$0.60 per share, to investors in the Navy Capital Offering.

On August 8, 2018, the Company issued three-year common stock purchase warrants to purchase an aggregate of 6,875,000 shares of the Company's common stock at an exercise price of \$0.60 per share, to investors in the Navy Capital Offering.

The following table summarizes the significant terms of warrants outstanding at November 30, 2018. These warrants were granted as part of financing agreements. This table does not include the special warrants; see Special Warrant section below:

Range of exercise Prices	Number of warrants Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding Warrants	Number of warrants Exercisable	Weighted average exercise price of exercisable Warrants
\$ 0.49	35,782,952	2.97	\$ 0.49	35,782,952	\$ 0.49
0.50	2,736,500	3.23	0.50	2,736,500	0.50
0.60	17,500,000	3.00	0.60	17,500,000	0.60
0.75	1,042,738	2.62	0.75	1,042,738	0.75
	<u>57,062,190</u>	<u>2.98</u>	<u>\$ 0.53</u>	<u>57,062,190</u>	<u>\$ 0.53</u>

Transactions involving warrants are summarized as follows. This table does not include the special warrants; see Special Warrant section below.

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding at May 31, 2018	4,700,988	\$ 0.62
Granted	52,776,202	\$ 0.58
Exercised	(415,000)	\$ 0.75
Cancelled / Expired	-	\$ -
Warrants outstanding at November 30, 2018	<u>57,062,190</u>	<u>\$ 0.53</u>

Special Warrants

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

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

Note 16 – Fair Value of Financial Instruments

The Company has issued convertible notes containing beneficial conversion features to Darling, Efrat, David Lamadrid and YA II PN Notes. One of the features is a ratchet reset provision which, in general, reduces the conversion price should the Company issue equity with an effective price per share that is lower than the stated conversion price in the note. The Company accounts for the fair value of the conversion feature in accordance with ASC 815- Accounting for Derivatives and Hedging and Emerging Issues Task Force (“EITF”) 07-05- Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock (“EITF 07-05”). The Company carries the embedded derivative on its balance sheet at fair value and accounts for any unrealized change in fair value as a component of its results of operations. The Company also has a contingent liability in connection with the acquisition of Alternative Solutions, LLC (see note 3).

The following summarizes the Company’s financial liabilities that are recorded at fair value on a recurring basis at November 30, 2018 and May 31, 2018:

	November 30, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities				
Contingent liabilities	\$ -	\$ -	\$ 678,111	\$ 678,111

	May 31, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	\$ -	\$ -	\$ 1,265,751	\$ 1,265,751

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

	Derivative Liability
Liabilities Measured at Fair Value	
Balance as of May 31, 2018	\$ 1,265,751
Transfers out due to the adoption of ASU 2017-11 effective June 1, 2018	(1,265,751)
Balance as of November 30 2018	<u>\$ -</u>

Note 17 – Commitments and Contingencies

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

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In August 2017, the Company's Colorado subsidiary received a demand letter from its Colorado landlord requesting the forfeiture of the \$50,000 security deposit, \$10,000 in expenses, \$15,699 in remaining rent due under the lease agreement and \$30,000 to buy out the remaining amounts due under the lease. These expenses, which are a liability of the Company's Colorado subsidiary, have been accrued on the balance sheet as of November 30, 2018.

Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman and Chief Executive Officer and is entitled to receive an annual salary of \$150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of \$1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to \$42.5 million and 4% of its annual EBITDA in excess of \$42.5 million. On April 28, 2015, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the merger of CLS Labs and a subsidiary of the Company, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of \$150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. On July 20, 2016, March 31, 2017, August 23, 2017, October 9, 2017, January 5, 2018 and April 6, 2018, the Company issued Mr. Binder convertible notes in exchange for \$250,000, \$112,500, \$62,500, \$39,521, \$37,500 and \$37,500 respectively, in deferred salary, among other amounts owed to Mr. Binder by the Company. As of November 30, 2018 and May 31, 2018, the Company had accrued compensation due to Mr. Binder in the amount of \$0 and \$37,500.

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett was entitled to receive an annual salary of \$150,000. Further, he was entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of \$1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to \$42.5 million and 4% of its annual EBITDA in excess of \$42.5 million. Additionally, Mr. Bonsett received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, valued at \$327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of Picture Rock Holdings, LLC ("PRH"), was expected to indirectly receive the benefits of the Colorado Arrangement discussed above. Mr. Bonsett agreed to defer his salary effective July 1, 2017; at November 30, 2018, the Company had accrued compensation due to Mr. Bonsett in the amount of \$37,500. On October 1, 2017, the Company and Mr. Bonsett, the Company's Chief Operating Officer, mutually agreed to end his employment with the Company. Mr. Bonsett may provide consulting services to the Company in the future on an as needed basis.

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

On July 31, 2018, the Company and Mr. Sillitoe entered into a one-year employment agreement. Pursuant to the agreement, Mr. Sillitoe commenced serving as the Chief Executive Officer of CLS Nevada, Inc. effective July 1, 2018. Under the agreement, Mr. Sillitoe is entitled to receive an annual salary of \$150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company's common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Sillitoe is entitled to a one-time signing bonus of 500,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Sillitoe remains employed by the Company on such date. As of November 30, 2018 and May 31, 2018, the Company had accrued compensation due to Mr. Sillitoe in the amount of \$25,000 and \$0.

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The Company and Mr. Decatur entered into a one-year employment agreement on July 31, 2018. Pursuant to the agreement, Mr. Decatur commenced serving as the Chief Operating Officer of CLS Nevada, Inc. on July 1, 2018. Under the agreement, Mr. Decatur is entitled to receive an annual salary of \$150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company's common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Decatur is entitled to a one-time signing bonus of 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Decatur remains employed by the Company on such date.

At November 30, 2018 and May 31, 2018, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of \$16,250.

Note 18 – Related Party Transactions

As of November 30, 2018 and May 31, 2018, the Company owed the amount of \$0 and \$37,500, respectively, to Jeffrey Binder, its Chief Executive Officer, for accrued salary.

As of November 30, 2018 and May 31, 2018, the Company had accrued salary due to Alan Bonsett, a former officer of the Company prior to his October 1, 2017 separation, in the amount of \$37,500 and \$37,500, respectively.

As of November 30, 2018 and May 31, 2018, the Company had accrued salary due to Michael Abrams, a former officer of the Company prior to his September 1, 2015 termination, in the amount of \$16,250.

As of November 30, 2018 and May 31, 2018, 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 \$271 and \$271 during the three months ended November 30, 2018 and 2017, respectively. These interest accruals were charged to additional paid-in capital.

On July 27, 2018, the Company granted 25,000 shares of restricted common stock to its Chief Financial Officer. These shares vested four months after issuance. The shares were valued at \$17,500, and were amortized over the vesting period. As of November 30, 2018, these shares had not been issued. As of November 30, 2018, \$17,500 had been charged to operations.

On July 31, 2018, the Company granted the Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at \$355,000 and will be amortized over the vesting period. As of November 30, 2018, \$147,917 had been charged to operations.

On July 31, 2018, the Company granted the Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at \$35,000 and will be amortized over the vesting period. As of November 30, 2018, \$14,792 had been charged to operations.

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

Note 19 – Subsequent Events

On December 12, 2018, the Company executed an Agency Agreement with certain Canadian agents (collectively, the “Agents”) regarding a private offering of up to \$40 million aggregate principal amount of senior unsecured convertible debentures (“Debentures”) with an issue price of US\$1,000 per Debenture, convertible into units of the Company (the “Units”) at the option of the holder at a conversion price of US\$0.80 per Unit at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the maturity date of the Debentures, being the date that is three (3) years from the closing date of the offering, and (ii) the date fixed for redemption upon the occurrence of a Change of Control (as defined in the Debentures) of the Company. Each Unit is comprised of one common share of the Company and a warrant to purchase one half of one common share (each whole warrant, a “Warrant”). Each Warrant is exercisable for one common share at a price of \$1.10 per Warrant for a period of 36 months from the closing date.

On December 12, 2018, the Company closed on the sale of the first tranche of Debentures, which was approximately \$12 million.

On January 8, 2019, the Company received a conversion notice from a note holder converting \$256,027, of which \$250,000 was principal and \$6,027 was accrued interest, into 640,068 shares of common stock.

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

OVERVIEW AND OUTLOOK

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

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

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

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including Picture Rock Holdings, LLC (“PRH”), an entity affiliated with one of our former officers. During 2017, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined if or when we will pursue them again.

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

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

On December 4, 2017, we entered into a Membership Interest Purchase Agreement (the “Acquisition Agreement”) with Alternative Solutions to acquire the outstanding equity interests in three of its subsidiaries (collectively, the “Oasis LLCs”); Serenity Wellness Center LLC d/b/a/ Oasis Medical Cannabis, Serenity Wellness Growers LLC, and Serenity Wellness Products LLC. Pursuant to the Acquisition Agreement, as amended, we paid a non-refundable deposit of \$250,000 upon signing, which was followed by an additional payment of \$1,800,000 on February 5, 2018, for an initial 10% of Alternative Solutions and each of the subsidiaries. At the closing of our purchase of the remaining 90% of the ownership interests in Alternative Solutions and the Oasis LLCs, which occurred on June 27, 2018, we paid the following consideration: \$5,995,543 in cash, a \$4.0 million promissory note due in December 2019, and \$6,000,000 in shares of our common stock. The cash payment of \$5,995,543 was less than the \$6,200,000 payment originally contemplated because we assumed an additional \$204,457 of liabilities. The Oasis LLCs collectively own and operate a vertically integrated cannabis business, including one dispensary, in Las Vegas, Nevada.

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On January 4, 2018, the Attorney General of the United States issued new written guidance concerning the enforcement of federal laws relating to marijuana. The Attorney General's memorandum stated that previous DOJ guidance specific to marijuana enforcement, including the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, the "Cole Memo") is unnecessary and is rescinded, effective immediately. The Cole Memo told federal prosecutors that in states that had legalized marijuana, they should use their prosecutorial discretion to focus not on businesses that comply with state regulations, but on illicit enterprises that create harms like selling drugs to children, operating with criminal gangs, and selling across state lines. In addition, since 2014, the federal budget has prohibited the DOJ from using federal funds to prosecute medical cannabis businesses pursuant to a budget rider, which must be renewed annually and is presently unrenewed due to the stalemate over funding the government for fiscal year 2019. The Attorney General has now advised that it will be left to the discretion of the local US attorneys in the various districts to decide how and when to enforce the federal marijuana laws. As a result of the Attorney General's recent guidance, it is unclear whether and how US attorneys in states with medical and/or recreational marijuana laws will enforce federal laws relating to the prohibition of the possession, ownership or sale of marijuana, among other things. It is also unclear whether any states will challenge the Attorney General's new pronouncement in the applicable courts. However, as a result of the Attorney General's new guidance, some banks, clearing brokers and other businesses may cease or limit how they do business with companies in the marijuana business to avoid a possible violation of federal law. It is also possible that some US attorneys may begin enforcing federal laws to prevent marijuana businesses that are otherwise validly operating under state laws, from conducting business. Thus, regardless of whether the Attorney General's new pronouncement is enforced or found to be lawful, it could have a material adverse impact on the marijuana industry, including our business.

Results of Operations for the Three Months Ended November 30, 2018 and 2017

Revenues

We had revenues of \$1,976,910 and \$0 during the three months periods ended November 30, 2018 and November 30, 2017. The increase in revenue for the three months ended November 30, 2018 is due to our acquisition of the Oasis LLCs. Our cannabis dispensary accounted for \$1,382,915 of our revenue, and our cannabis production accounted for \$593,995 of our revenue.

Cost of goods sold

Our cost of goods sold for the three months ended November 30, 2018 was \$1,046,667 compared to cost of goods sold of \$0 for the three months ended November 30, 2017. The increase in cost of goods sold for the three months ended November 30, 2018 is due to our acquisition of the Oasis LLCs. Cost of goods sold consisted of \$1,019,567 of product cost, \$21,984 of licensing fees, \$2,386 of supplies and materials, and \$2,730 of freight. Our gross margin for the three months ended November 30, 2018 was 47%.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$2,719,657, or approximately 1,057%, to \$2,977,036 during the three months ended November 30, 2018, compared to \$257,379 for the three months ended November 30, 2017. The increase in selling, general, and administrative costs was attributable primarily to the costs associated with the Oasis LLCs, which we acquired effective June 27, 2018. The following increases in selling, general, and administrative expenses were associated entirely with the Oasis LLCs: office and facilities expense increased by \$202,499; depreciation and amortization increased by \$76,259; and insurance expense increased by \$38,296. The following increases in selling, general, and administrative expenses were attributable primarily to the Oasis LLCs: Professional fees increased by \$780,242; payroll and related costs increased by \$605,393; sales, marketing, and advertising costs increased by \$445,986; stock based compensation increased by \$158,250; taxes and licenses increased by \$109,419; and travel costs increased by \$76,552. The addition of the Oasis LLCs caused us to add \$627,834 to payroll and related costs, and \$115,985 to sales, marketing and advertising cost, which contributed to the increase in overall selling, general and administrative costs. The increase in stock based compensation was largely related to restricted stock we granted to three of our officers, two of whom work with the Oasis LLCs. Although we expect expenses related to fundraising activities to vary depending on our future growth, we expect operational general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Interest expense

Interest expense for the three months ended November 30, 2018 was \$652,450, a decrease of \$154,515, or 19%, compared to \$806,965 for the three months ended November 30, 2017. This decrease was primarily due to a decrease in interest expense on related party debt, which decreased by \$26,872 to \$1,721, compared to \$28,593 in the second quarter of fiscal 2017 as a result of a decrease in the principal amount of related party notes payable, and a decrease in amortization of discounts on certain of our convertible debt due to beneficial conversion features, which decreased by \$192,197 to \$545,828, compared to \$738,025 in the comparable period of the prior year primarily due to debt conversions that occurred during the second quarter of fiscal 2017. The decrease in interest expense was partially offset by an increase in accrued interest on notes payable for the three months ended November 30, 2018 by \$125,331 to \$129,291 compared to \$3,960 in the second quarter of fiscal 2017 due to an increase in the principal amount of notes payable.

Loss on Note Exchange

During the three months ended November 30, 2017, we recognized a loss on the exchange of debt in the amount of \$404,532. This loss related to the exchange of the April 2015 Note for our common stock. There was no comparable transaction during the three months ended November 30, 2018.

Loss on Extinguishment of Debt

During the three months ended November 30, 2017, we recognized a loss on the extinguishment of debt in the amount of \$989,032. This loss is related to the exchange of the 8% Note for our common stock. There was no comparable transaction during the three months ended November 30, 2018. .

Change in fair value of derivative liability

During the three months ended November 30, 2017, we incurred a loss on the revaluation of derivative liability of \$68,140 related to the reset provisions contains in certain of our convertible notes. On June 1, 2018, we adopted ASU 2017-11 and reclassified the aggregate amount of \$1,295,751, which is the fair value of the reset provisions embedded in previously issued convertible notes payable and certain warrants with embedded anti-dilutive provisions, from liability to equity. Upon adoption of ASU 2017-11, we were no longer required to treat reset (anti-dilution) provisions as derivative liabilities.

Net loss

For the reasons above, we incurred a net loss for the three months ended November 30, 2018 of \$2,699,243, which is an increase of \$173,645, or approximately 7%, compared to a net loss of \$2,525,598 during the three months ended November 30, 2017.

Results of Operations for the Six Months Ended November 30, 2018 and 2017

Revenues

We had revenues of \$3,156,263 and \$0 during the six months periods ended November 30, 2018 and November 30, 2017. The increase in revenue for the six months ended November 30, 2018 is due to our acquisition of the Oasis LLCs. Our cannabis dispensary accounted for \$2,159,622 of our revenue, and our cannabis production accounted for \$996,641 of our revenue.

Cost of goods sold

Our cost of goods sold for the six months ended November 30, 2018 was \$1,806,611, compared to cost of goods sold of \$0 for the six months ended November 30, 2017. The increase in cost of goods sold for the six months ended November 30 2018 is due to our acquisition of the Oasis LLCs. Cost of goods sold consisted of \$1,754,897 of product cost, \$43,277 of licensing fees, \$5,373 of supplies and materials, and \$3,064 of freight. Our gross margin for the six months ended November 30, 2018 was 43%.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$17,752,583, or approximately 2,879%, to \$18,369,166 during the six months ended November 30, 2018, compared to \$616,583 for the six months ended November 30, 2017. The increase in selling, general and administrative expenses for the six months ended November 30, 2018 was primarily due to one-time financing and acquisition costs attributable to the acquisition of the Oasis LLCs, as well as ongoing operational costs of the Oasis LLCs. The one-time financing and acquisition costs consisted primarily of: the fair value of the special warrants and compensation broker warrants issued to Canaccord in connection with our sale of the special warrants in the amount of \$2,908,673; the fair value of additional warrants and special warrants issued due to the failure to meet certain registration statement filing requirements in connection with the Westpark offering and the Canaccord offering in the amount of \$8,084,522; the fair value of 700,000 shares of common stock issued to Star Associates, which is affiliated with one of our directors, for services in connection with the Oasis transaction of \$490,000; broker and agent fees and commission in the amount of \$1,060,773, and a foreign exchange loss on conversion of the Canaccord funds from Canadian to U.S. dollars in the amount of \$403,588.

The increase in selling, general, and administrative costs was also attributable to the costs associated with operating the Oasis LLCs, which we acquired effective June 27, 2018. The following increases in selling, general, and administrative expenses were associated entirely with the Oasis LLCs: office and facilities expense increased by \$157,993, to \$297,967; depreciation and amortization increased by \$126,493, to \$126,493; and insurance costs increased by \$90,478, to \$90,478. The following increases in selling, general, and administrative expenses were attributable partially to the Oasis LLCs and partially to the ongoing implementation of other aspects of our business plan and general corporate purposes: professional fees increased by \$1,863,558, to \$2,181,772, primarily in connection with costs associated with the 2018 U.S. Convertible Debenture offering and the 2018 Convertible Debenture offering related to our future proposed acquisitions and expansions plans; payroll and related costs increased by \$997,131 to \$1,131,694, of which \$1,043,159 was attributable to Oasis; sales, marketing, and advertising costs increased by \$747,992 to 753,240, of which \$226,560 was directly attributable to Oasis; stock based compensation increased by \$278,388, to 278,388, of which \$227,709 was directly attributable to Oasis; travel costs increased by \$147,383, to \$166,019; and taxes and licenses increased by \$129,702, to \$129,702, which was directly attributable to Oasis. Although we expect expenses related to fundraising activities to vary depending on our future growth, we expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Interest expense

Interest expense for the six months ended November 30, 2018 was \$2,336,669, an increase of \$1,454,838, or 165%, compared to \$881,831 for the six months ended November 30, 2017. We have recorded discounts on certain of our convertible debt due to beneficial conversion features. Interest expense in connection with the amortization of these discounts increased by \$1,571,473 to \$2,144,329 during the second half of fiscal 2018, compared to \$572,856 in the comparable period of fiscal 2017 primarily due to a restructuring of certain notes payable during the first quarter of fiscal 2018. Also, during the six months ended November 30 2018, accrued interest on notes payable increased by \$198,651 to \$211,248 compared to \$12,297 in the comparable period of fiscal 2017. This increase was the result on an increase in the principal amount of notes payable from \$1,604,837 at November 30, 2017 to \$10,772,909 at November 30, 2018. The increase in interest expense was partially offset by a decrease in interest expense on related party debt for the six months ended November 30, 2018 from \$47,580 to \$5,211, compared to \$52,791 in the comparable period of the prior year as a result of a decrease in the principal amount of related party notes payable.

Gain on Settlement of Debt

During the six months ended November 30, 2017, we recognized a gain on the settlement of accounts payable in the amount of \$3,480 because we repaid an account using our common stock. There was no comparable transaction during the six months ended November 30, 2018.

Loss on Modification of Debt

During the six months ended November 30, 2017, we recognized a loss on modification of debt in the amount of \$29,145 related to the amendment of the 8% Note. There was no comparable transaction during the six months ended November 30, 2018.

Loss on Note Exchange

During the six months ended November 30, 2017, we recognized a loss on the exchange of debt in the amount of \$404,532. This loss related to the exchange of the April 2015 Note for our common stock. There was no comparable transaction during the comparable period of fiscal 2017.

Loss on Extinguishment of Debt

During the six months ended November 30, 2017, we recognized a loss on the extinguishment of debt in the amount of \$989,032. This loss is related to the exchange of the 8% Note for our common stock. There was no comparable transaction during the six months ended November 30, 2018.

Change in fair value of derivative liability

During the six months ended November 30, 2017, we incurred a loss on the revaluation of derivative liability of \$174,090 related to reset provisions contained in certain of our convertible notes. On June 1, 2018, we adopted ASU 2017-11 and reclassified the aggregate amount of \$1,295,751, which is the fair value of the reset provisions embedded in previously issued convertible notes payable and certain warrants with embedded anti-dilutive provisions, from liability to equity. Upon adoption of ASU 2017-11, we were no longer required to treat reset (anti-dilution) provisions as derivative liabilities.

Net loss

For the reasons above, we incurred a net loss for the six months ended November 30, 2018 of \$19,356,183, which is an increase of \$16,264,900, or approximately 526%, compared to a net loss of \$3,091,283 during the six months ended November 30, 2017.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital at November 30, 2018 compared to May 31, 2018.

	November 30, 2018	May 31, 2018
Current Assets	\$ 5,998,395	\$ 54,374
Current Liabilities	\$ 6,742,553	\$ 2,689,148
Working Capital (Deficit)	\$ (744,158)	\$ (2,634,774)

At November 30, 2018, we had working capital deficit of \$744,158, an increase of \$1,890,616 from the working capital deficit of (\$2,634,774) we had at May 31, 2018. Our working capital at November 30, 2018, includes \$4,872,048 of cash. The increase in working capital was a result of our successful financing activities during the six months ended November 30, 2018, including \$15,535,978 in proceeds from the sale of equity, \$6,357,000 from the issuance of convertible notes, and \$158,615 from the issuance of related party notes.

We are presently seeking to expand the Oasis Cannabis and related City Trees businesses in Nevada and are considering other potential acquisitions, including our previously announced potential acquisitions in Massachusetts. Our working capital needs will likely continue to increase, which could result in future working capital deficits, until we complete at least the first phase of our expansion plan at Oasis Cannabis. We have operated at a loss since inception.

Cash flows used in operating activities was \$5,757,327 during the six months ended November 30, 2018 compared to \$424,750 during the six months ended November 30, 2017, an increase of \$5,332,577 or 1,255%. The increase was primarily due to a net loss of \$19,356,188, which was offset by approximately \$11,396,783 of cash offering costs in connection with our fundraising activities; \$768,388 of non-cash compensation; \$2,144,333 of amortization of debt discounts, \$539 of imputed interest; \$12,659 of expense from a derivative triggering event and a change in the components of net working capital of \$854,039. The increase in cash used in operating activities is also related to the acquisition of the Oasis LLCs, which operated at a loss. We expect cash flows used in operating activities to improve in the next twelve months as the revenue generated by the Oasis LLCs increases.

Cash flows used in investing activities was \$11,017,805 during the six months ended November 30, 2018 compared to \$0 during the six months ended November 30, 2017. The amounts used during the six months ended November 30, 2018 consisted of the cash payment of \$5,982,710, net of cash acquired of \$14,612, in connection with our acquisition of the Oasis LLCs; and our loan to In Good Health in the amount of \$5,000,000 which was made in connection with the grant of the option to us to acquire this entity.

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Cash flows provided by financing activities was \$21,594,216 during the six months ended November 30, 2018 compared to \$605,629 during the six months ended November 30, 2017. The increase in cash flows provided by financing activities during the six months ended November 30, 2018 was primarily due to our receipt of proceeds from the special warrant offering of \$9,785,978 and from our sale of common stock of \$5,750,000, and our receipt of \$6,357,000 from the issuance of convertible notes. This increase was partially offset by \$310,000 due to principal payments on notes, \$109,877 due to principal payments on related part notes and \$37,500 due to principal payments on convertible related party notes.

Third Party Debt

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

<u>Name of Note</u>	<u>Original Principal Amount</u>		<u>Payment Details</u>
April 2015 Note	\$ 200,000	Repaid	Repaid in part and exchanged in part
Old Main 8% Note	\$ 200,000	Repaid	Exchanged for 4,500,000 shares
FirstFire Note	\$ 363,000	Repaid	Repaid
Darling Capital Note	\$ 550,000	Repaid	Converted into 1,808,000 shares
Efrat Investments Note	\$ 55,000	Repaid	Converted into 183,040 shares
Todd Blatt	\$ 210,000	Repaid	Repaid
AJG Group	\$ 100,000	Repaid	Repaid
YA II PN Note	\$ 1,250,000	Outstanding	Repayment commences December 2018
Oasis Note	\$ 4,000,000	Outstanding	Due December 2019
2018 U.S. Convertible Debentures	\$ 5,857,000	Outstanding	Due October 26-31, 2021

April 2015 Note

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 accrued 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 was due in eight (8) equal quarterly payments, in arrears, commencing on July 1, 2016. All outstanding principal and any accumulated unpaid interest thereon was 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 could be converted in whole, but not in part, into our securities. For each dollar converted, the holder would 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 year ended May 31, 2017, we repaid principal in the amount of \$100,000 and interest in the amount of \$53,837 on this note.

On September 20, 2017, we entered into an exchange agreement, whereby we agreed to exchange the April 2015 Note for 1,500,000 shares of our common stock. The holder of the April 2015 Note had previously sold it for \$105,219, which represented the balance due by us, to StarForce Media, Inc., an entity that is not affiliated with us. We recognized a loss on this exchange in the amount of \$404,082, which was charged to operations during the twelve months ended May 31, 2018. We also expensed the remaining discount in the amount of \$18,155 to interest expense during the twelve months ended May 31, 2018.

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Old Main 8% Note and Equity Line

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

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

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

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

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

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

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

On October 6, 2016, we entered into an amendment to the equity line Agreement to amend the new commitment period, which is 24 months from the date of this amendment. Second, the equity line agreement was amended to prohibit us from delivering a subsequent put notice from the beginning of any “Valuation Period” until the fourth trading day immediately following the closing associated with the prior put notice. Third, the beneficial ownership limitation was amended to increase the beneficial ownership limitation to 9.99% and to remove the ability of Old Main to increase or decrease the beneficial ownership limitation. We have not “put” any common stock to Old Main under the equity line Agreement.

FirstFire Note

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

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

The FirstFire Note was convertible at any time into shares of our common stock, at the option of the holder, at an initial conversion rate equal \$0.40 per share of common stock (the “Fixed Conversion Price”). Any time on or after the 180th day after the issuance of the FirstFire Note, the conversion price would equal the lower of (a) the Fixed Conversion Price or (b) 75% of the lowest traded price of our common stock in the 20 consecutive trading days immediately prior to the day that we receive the applicable conversion notice.

On the closing date, we also issued FirstFire a three-year common stock purchase warrant to purchase 350,000 shares of our common stock at an initial exercise price of \$0.75 per share and agreed to issue FirstFire promptly following the closing date 250,000 shares of our restricted common stock as a commitment fee to enter into the purchase agreement and prepare all of the related transaction documents. During the three months ended February 28, 2018, an event occurred that triggered the reduction of the FirstFire Fixed Conversion Price from \$0.40 per share to \$0.3125 per share.

On May 9, 2018, we entered into an amendment to the FirstFire Note, whereby we agreed to make a \$50,000 payment on or before May 14, 2018 and a \$450,000 payment on or before May 31, 2018 to repay the FirstFire Note in full. We also agreed to issue an additional warrant to purchase 25,000 shares of our common stock. In exchange, the note holder agreed that it would not convert the FirstFire Note until after May 31, 2018. During the twelve months ended May 31, 2018, we made payments of \$500,000 on this note, which amounts repaid the FirstFire Note in full.

Darling Capital Note

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

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

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

Efrat Investments Note

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

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

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

The YA II PN, Ltd. Notes

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

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

Commencing on December 1, 2018 and on the first day of each month thereafter through July 1, 2019 (each an “Installment Date”), subject to certain exceptions, we shall pay to YA II one-eighth of the principal amount of the debentures, plus accrued and outstanding interest (the “Installment Amount”), plus 20% of the of the Installment Amount for Installment Amounts due within 180 days following the date of execution of the purchase agreement, and 25% of the Installment Amount for Installment Amounts due thereafter in cash or by converting such Installment Amount into shares of our common stock. If we have met the applicable conditions for such a conversion and as long as the conversion does not exceed certain maximum amounts.

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

During the six months ended November 30, 2018, YA II converted a total of \$280,247, which consisted of \$250,000 of principal and \$30,247 of accrued interest, into 700,616 shares of common stock. On January 8, 2019, YA II converted \$256,027, of which \$250,000 was principal and \$6,027 was accrued interest, into 640,068 share of common stock.

Blatt Note

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

AJG Group Note

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

Oasis Note

On June 27, 2018, we closed on the purchase of the remaining 90% of the membership interests of Alternative Solutions and the Oasis LLCs. The closing occurred pursuant to the Acquisition Agreement dated December 4, 2017, as amended. On such date, we made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of \$5,995,543, a \$4.0 million promissory note due in December 2019 (the “Oasis Note”), and 22,058,823 shares of its common stock. The cash payment of \$5,995,543 was less than the \$6,200,000 payment originally contemplated because we assumed an additional \$204,457 of liabilities. The Oasis Note bears interest at the rate of 6% per annum. The Oasis Note may be prepaid at any time without penalty. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs.

2018 U.S. Convertible Debenture Offering

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

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

Related Party Debt

David Lamadrid Note

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

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

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

Koretsky and Affiliate Notes

Between August 11, 2015 and May 31, 2017, we borrowed an aggregate of \$1,657,000 from Frank Koretsky, a director of the Company, and \$150,000 from CLS CO 2016, LLC and \$465,000 from Newcan Investment Partners, LLC, two entities that are affiliated with Mr. Koretsky. These loans were unsecured, accrued interest between 6% and 15% per year, were due either on demand or within three years after the date of the applicable note, and, in some cases, were convertible into shares of our common stock and warrants at rates between \$0.25 and 1.07 per share. Effective on May 31, 2017, we entered into the Omnibus Loan Amendment Agreement, whereby the portion of these loans that was advanced prior to December 31, 2017 was converted into our common stock, together with accrued interest on these loans. As a result of these conversions, Mr. Koretsky, CLS CO 2016 and Newcan converted an aggregate of \$1,485,000, \$150,000, and \$460,000 in principal, and \$130,069, 49,247 and \$7,747 in accrued interest, into an aggregate of 6,460,276, 636,988 and 1,870,988 shares of common stock at \$.25 per share. Pursuant to the Omnibus Loan Amendment Agreement, the conversion rate on all of the loans made by Mr. Koretsky, CO CLS 2016, and Newcan was reduced, if applicable, to \$.25 per share and Mr. Koretsky and his affiliates gave up the right to receive warrants upon conversion. Thus, each of Mr. Koretsky, CLS CO 2016 and Newcan received 4,560,849, 488,159 and 1,433,841 shares of common stock in excess of what they would have received had they converted their loans into common stock prior to the effective date of the Omnibus Loan Amendment Agreement.

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

On August 6, 2018, we issued a convertible promissory note to Newcan, an entity owned by Frank Koretsky, a director of the Company, in the amount of \$75,000.00 (the “Newcan Convertible Note 8”), to finalize the terms of repayment with respect to a certain loan made to the Company by Newcan on May 4, 2018. The Newcan Convertible Note 8 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on January 1, 2020. The Notes may be prepaid by us with no penalty at any time upon thirty days written notice. The holder of the Newcan Convertible Note 9 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 \$0.40 converted, the holder will receive one share of our common stock.

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During the six months ended November 30, 2018, Newcan converted a total of \$78,534, which consisted of \$75,000 of principal and \$3,534 of accrued interest, into 196,336 shares of common stock.

Binder Notes

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

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

On April 6, 2018, we issued Binder Convertible Note 9, in the amount of \$37,500, to Mr. Binder with respect to certain compensation payable to Mr. Binder as of February 28, 2018. Binder Convertible Note 8 is unsecured and bears interest at the rate of 10% per annum. No payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with interest accrued thereon, beginning on July 1, 2019. The note may be prepaid by us with no penalty at any time upon thirty days written notice. Mr. Binder may, at any time prior to payment or prepayment in full, convert all principal and accrued interest thereunder, in whole or in part, into our securities. For each \$0.3125 converted, Mr. Binder will receive one share of our common stock. The Binder Convertible Note 9 was repaid in cash on August 7, 2018.

Omnibus Loan Amendment Agreements

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

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

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

Sales of Equity

WestPark Offering

During February and March 2018, we held four closings of the WestPark Offering, whereby we sold units for \$1.25 per unit. Each unit consisted of four shares of common stock and one warrant to purchase one share of our common stock for \$0.75 per share. We sold a total of 1,368,250 units in the WestPark Offering for aggregate gross proceeds of \$1,710,313, and aggregate net proceeds of \$1,460,918 after deduction of placement agent commissions, a non-accountable expense allowance and expenses associated with the offering. We also issued WestPark Capital, Inc., as placement agent, a five-year warrant to purchase 205,238 units at a price of \$1.25 per unit. The unit warrant were valued at \$503,655, which amount was charged to operations during the twelve months ended May 31, 2018. We used the proceeds of the WestPark Offering towards deposits due in connection with our acquisition of Oasis Cannabis and for general corporate purposes. During the three months ended August 31, 2018, we issued 1,368,250 four-year warrants at an exercise price of \$0.50 per share at a fair value of \$941,972 to the investors in the Westpark Offering as a penalty for failure to timely file a registration statement with respect to the securities we sold to them in the Westpark Offering.

The Canaccord Special Warrant Offering

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

Pursuant to the offering, we issued 28,973,019 special warrants at a price of CD\$0.45 (USA\$0.34) per special warrant. Each special warrant was automatically exercisable, for no additional consideration, into our units on the earlier of: (i) the date that was five business days following the date on which we obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of our acquisition of all of the membership interests in Alternative Solutions, known as Oasis Cannabis, which occurred on June 27, 2018.

Upon exercise of the special warrants, each unit was to consist of one share of our common stock and one warrant to purchase one share of common stock. Each warrant was to be exercisable at a price of CD\$0.65 for three years after our common stock was listed on a recognized Canadian stock exchange, subject to adjustment in certain events. Because we did not receive a receipt from the applicable Canadian securities authorities for the qualifying prospectus by August 19, 2018, each unexercised special warrant generally entitles the holder to receive 1.1 of our units instead of one unit.

On November 30, 2018, all of the special warrants were automatically exercised for an aggregate of 33,465,110 shares of common stock and warrants to purchase 33,465,110 shares of common stock for C\$0.65 per share.

In connection with the offering, we paid a cash commission and other fees equal to CD\$1,413,267 (USD\$1,060,773), a corporate finance fee equal to 1,448,651 special warrants with a fair value of USD\$1,413,300, and 2,317,842 compensation broker warrants with a fair value of USD\$1,495,373. Each compensation broker warrant entitles the holder thereof to acquire one unit at a price of CD\$0.45 per unit for a period of 36 months from the date that our common stock is listed on a recognized Canadian stock exchange, subject to adjustment in certain events. Our common stock commenced trading on the Canadian Stock Exchange on January 7, 2019. During the three months ended August 31, 2018, we also issued investors 3,042,167 special warrants with a fair value of \$7,142,550 as a penalty for failure to timely effect a Canadian prospectus with regard to the securities underlying the special warrants.

We used the proceeds for the Canaccord offering to close the purchase of Oasis Cannabis and for general corporate purposes.

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The Navy Capital Investors

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

Between August 8, 2018 and August 10, 2018, we entered into five subscription agreements, pursuant to which we sold, for an aggregate purchase price of \$2,750,000, 6,875,000 Units (\$0.40 per unit), representing (i) 6,875,000 shares of our common stock, and (ii) three-year warrants to purchase an aggregate of 6,875,000 shares of our common stock at an exercise price of \$0.60 per share of common stock. The balance of the terms set forth in the subscription agreements are the same as the terms in the Navy Capital subscription agreement summarized above.

We plan to use the proceeds of the Navy Capital offering to fund certain planned expansions at our City Trees and Oasis Cannabis businesses in Nevada and for general corporate purposes.

Liquidity and Capital Needs

Over the next twelve months we will likely require additional capital to cover our projected cash flow deficits, payments on the loan from YA PN II, the implementation of our business plan, including the expansion of our Nevada operation, and the development of other revenue sources, including our previously announced two proposed Massachusetts acquisitions and other possible acquisitions.

During the next twelve months we expect to complete phase 1 and possibly phase 2 of our expansion plan, which includes the substantial expansion of our grow facility in Nevada. At present, we estimate that we will require up to \$3,000,000 to complete phase 1 and up to \$2,000,000 to complete phase 2 of this expansion (excluding development of the outdoor space). We expect to fund the cost of this expansion from a portion of the proceeds of our previously announced proposed sale of up to \$40 million in senior unsecured debentures through a Canadian agent on a commercially reasonable efforts private placement basis, \$12 million of which we received at the initial closing in December 2018. We also plan to use the proceeds of this proposed offering to fund certain payments associated with our two proposed Massachusetts acquisitions, including working capital. We hold an option to purchase In Good Health for a purchase price that includes \$35 million in cash, which we plan to fund with the proceeds of the \$40 million offering mentioned above, but we have only closed on \$12 million under this offering. Although we believe we will conduct another closing in the next month, there can be no assurance that we will be successful in closing on all of the proposed offering amount or securing alternative financing with which to complete this acquisition. We may also pursue additional acquisitions in the next twelve months but we have not entered into any definitive agreements with respect to either additional acquisitions or the capital necessary to finance them.

Although our revenues are expected to grow as we expand our operations, our revenues are not expected to exceed operating costs until approximately the first quarter of 2019. Although we believe we have sufficient funds to sustain our operations at their current level until such time, if we require additional cash, we expect to obtain the necessary funds as described above; however, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of operations. To address these risks, we must, among other things, seek growth opportunities through additional debt and/or equity investments and acquisitions in our industry, successfully execute our business strategy, including our planned expansion and acquisitions, and successfully navigate any changes that may arise in the cannabis regulatory environment. We cannot assure that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business prospects, financial condition and results of operations.

Although PRH made one payment to us during fiscal 2018, because we do not know when we will re-visit commencing operations in Colorado, there can be no assurance that PRH will ever generate sufficient cash to repay the \$500,000 loan from CLS Labs Colorado or to meet PRH’s obligations under the Licensing Agreement or Equipment Lease. Further, due to the delays we encountered with the construction of our Colorado processing facility, we have placed our proposed Colorado operations on hold and will pursue revenue producing opportunities in other states.

Oasis Cannabis Transaction

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

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

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

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

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

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

Consulting Agreements

On July 24, 2018, we issued 700,000 shares of common stock with a fair value of \$490,000 to Star Associates for services in connection with the Oasis acquisition. Star Associates is controlled by Andrew Glashow, a director of the Company.

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 \$37,925,277 and had working capital deficit of \$744,158 at November 30, 2018. The report of our independent auditors for the year ended May 31, 2018, contained a going concern qualification. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by early stage companies.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

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

Recently Issued Accounting Standards

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

In August 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update was effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. We do not believe that the implementation of this update has had a material impact on our financial statements.

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 4. Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures

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

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

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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.

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

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

CLS HOLDINGS USA, INC.

Date: January 14, 2019

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

Date: January 14, 2019

By: /s/ Frank Tarantino
Frank Tarantino
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

I, Jeffrey I. Binder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CLS Holdings USA, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control for financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2019

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

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

I, Frank Tarantino, 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.

January 14, 2019

/s/ Frank Tarantino
Frank Tarantino Chief Financial Officer
(Principal Financial and Accounting Officer)

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

I, Jeffrey I. Binder, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended November 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2019

/s/ Jeffrey I. Binder

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

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

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

I, Frank Tarantino, 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 November 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2019

/s/ Frank Tarantino

Frank Tarantino Chief Financial Officer
(Principal Financial and Accounting Officer)

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