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

FORM 10-Q

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

For the quarterly period ended **February 28, 2021**

or

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

Commission File Number: **000-55546**

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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.

Large Accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth company ☐	

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

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

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 126,821,416 shares of $0.0001 par value common stock outstanding as of April 12, 2021.

CLS HOLDINGS USA, INC.

FORM 10-Q
Quarterly Period Ended February 28, 2021

TABLE OF CONTENTS

EXPLANATORY NOTE

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

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, the impact of the COVID-19 virus on our business, the results of our initiatives to retain our employees and strengthen our relationships with our customers and community during the pandemic, the effect of our initiatives to retain and expand market share and achieve growth following the pandemic, results of operations during the pandemic, and the effectiveness of our business practices during the pandemic. The continued spread of COVID-19 could have, and in some cases already has had, an adverse impact on our business, operations and financial results, including through disruptions in our processing activities, sales channels, and retail dispensary operations as well as a deterioration of general economic conditions including a possible national or global recession. Due to the uncertainties associated with the continued spread of COVID-19 and the timing of vaccinations, it is not possible to estimate its impact on our business, operations or financial results; however, the impact could be material. These forward-looking statements also relate to anticipated future events, future results of operations, and our future financial performance, and include, without limitation, statements relating to our ability to finance our operations, identify, finance and close potential acquisitions, market acceptance of our services and product offerings, our ability to protect and commercialize our intellectual property and our ability to grow our wholesale and processing businesses. 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 expected future results, levels of activity or performance expressed or implied by these forward-looking statements.

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

AVAILABLE INFORMATION

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

Item 1. Financial Statements.

CLS HOLDINGS USA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	February 28, 2021	May 31, 2020
ASSETS	(unaudited)	
Current assets		
Cash and cash equivalents	$ 2,231,934	$ 2,925,568
Accounts Receivable	277,437	161,409
Inventory	969,656	575,242
Prepaid expenses and other current assets	393,041	234,092
Interest receivable - current portion	-	3,322
Notes receivable - current portion	-	4,042,175
Total current assets	3,872,068	7,941,808
Property, plant and equipment, net of accumulated depreciation of $1,291,937 and $868,200	3,533,038	3,775,509
Right of use assets, operating leases	1,136,695	1,403,429
Intangible assets, net of accumulated amortization of $330,207 and $242,908	1,333,905	1,421,204
Goodwill	557,896	557,896
Other assets	167,455	167,455
Total assets	$ 10,601,057	$ 15,267,301
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,179,748	$ 1,172,883
Accrued interest	267,945	222,433
Lease liability - operating leases, current	93,532	336,900
Convertible notes payable - current, net of discount of $1,053,520 and $0	19,042,293	-
Contingent liability	-	150,000
Total current liabilities	20,583,518	1,882,216
Noncurrent liabilities		
Lease liability - operating leases, non-current	1,065,208	1,136,151
Convertible notes payable - Long Term, net of discount of $0 and $2,238,730	-	17,644,482
Total Liabilities	21,648,726	20,662,849
Commitments and contingencies	-	-
Stockholder's deficit		
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Common stock, $0.0001 par value; 750,000,000 shares authorized at February 28, 2021 and May 31, 2020; 126,821,416 and 126,521,416 shares issued and outstanding at February 28, 2021 and May 31, 2020	12,683	12,653
Additional paid-in capital	71,319,504	71,196,814
Common stock subscribed	173,452	241,109
Accumulated deficit	(82,553,308)	(76,846,124)
Total stockholder's deficit	(11,047,669)	(5,395,548)
Total liabilities and stockholders' deficit	$ 10,601,057	$ 15,267,301

See accompanying notes to these financial statements.

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

	For the Three Months Ended February 28, 2021	For the Three Months Ended February 29, 2020	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
Revenue	$ 4,544,082	$ 3,224,170	$ 13,232,840	$ 9,139,616
Cost of goods sold	2,488,906	1,537,960	6,487,089	4,537,164
Gross margin	2,055,176	1,686,210	6,745,751	4,602,452
Selling, general and administrative expenses	2,511,502	2,213,206	7,717,063	6,533,173
Total operating expenses	2,511,502	2,213,206	7,717,063	6,533,173
Operating loss	(456,326)	(526,996)	(971,312)	(1,930,721)
Other (income) expense:				
Interest expense, net	757,740	725,003	2,237,166	2,254,752
Impairment of note receivable	2,498,706	-	2,498,706	-
Gain on settlement of liabilities	-	-	-	(275,000)
Total other expense	3,256,446	725,003	4,735,872	1,979,752
Loss before income taxes	(3,712,772)	(1,251,999)	(5,707,184)	(3,910,473)
Income tax expense	-	-	-	-
Net loss	$ (3,712,772)	$ (1,251,999)	$ (5,707,184)	$ (3,910,473)
Net loss per share - basic	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.03)
Net loss per share - diluted	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.03)
Weighted average shares outstanding - basic	126,635,303	126,470,865	126,568,117	126,343,206
Weighted average shares outstanding - diluted	126,635,303	126,470,865	126,568,117	126,343,206

See accompanying notes to these financial statements.

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

	Common Stock		Paid In	Stock	Accumulated	
	Amount	Value	Capital	Payable	Deficit	Total
Balance - May 31, 2019	125,839,095	$ 12,585	$ 70,758,025	$ 455,095	$ (46,188,151)	$ 25,037,554
Common stock issued to officers	550,000	55	390,445	(390,500)	-	-
Conversion of notes payable	32,321	3	25,854	-	-	25,857
Vesting of Common stock to be issued to officers	-	-	-	124,582	-	124,582
Common stock to be issued to consultants	-	-	-	45,000	-	45,000
Common stock issued to consultants	100,000	10	22,490	(22,500)	-	-
Net loss - 9 months ended February 29, 2020	-	-	-	-	(3,910,473)	(3,910,473)
Balance - February 29, 2020 (unaudited)	126,521,416	$ 12,653	$ 71,196,814	$ 211,677	$ (50,098,624)	$ 21,322,520
Balance, May 31, 2020	126,521,416	$ 12,653	$ 71,196,814	$ 241,109	$ (76,846,124)	$ (5,395,548)
Common stock to be issued to officer	-	-	-	80,813	-	80,813
Common stock issued to officer from stock payable	300,000	30	122,690	(122,720)	-	-
Fair value of cancelled shares issued for services	-	-	-	(25,750)	-	(25,750)
Net loss for the 9 months ended February 28, 2021	-	-	-	-	(5,707,184)	(5,707,184)
Balance, February 28, 2021 (unaudited)	126,821,416	$ 12,683	$ 71,319,504	$ 173,452	$ (82,553,308)	$ (11,047,669)

See accompanying notes to these financial statements.

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

	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,707,184)	$ (3,910,473)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on contingent liabilities	-	(275,000)
Fair value of cancelled shares issued for services	(25,750)	-
Amortization of debt discounts	1,185,210	1,249,053
Fair value of shares vested by officers	80,813	124,582
Impairment of note receivable	2,498,706	-
Depreciation and amortization expense	511,036	285,073
Fair value of shares issued in settlement	-	45,000
Bad debt expense	5,927	-
Changes in assets and liabilities:		
Accounts receivable	(121,955)	6,342
Prepaid expenses and other current assets	(158,949)	(72,742)
Inventory	(394,414)	16,503
Interest receivable	2,500	(221,195)
Right of use asset	266,734	1,215,397
Accounts payable and accrued expenses	6,865	(166,468)
Accrued interest	258,113	934,117
Contingent liability	(150,000)	-
Operating lease liability	(314,311)	(1,101,532)
Net cash used in operating activities	(2,056,659)	(1,871,343)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to purchase property, plant and equipment	(181,266)	(1,766,185)
Loan made to borrower under note receivable	-	(175,000)
Proceeds from collection of note receivable	1,544,291	325,000
Net cash provided by (used in) investing activities	1,363,025	(1,616,185)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	-	(3,999,168)
Net cash used in financing activities	-	(3,999,168)
Net decrease in cash and cash equivalents	(693,634)	(7,486,696)
Cash and cash equivalents at beginning of period	2,925,568	10,525,791
Cash and cash equivalents at end of period	$ 2,231,934	$ 3,039,095
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 943,817	$ 307,612
Income taxes paid	$ -	$ -
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for services issued from stock payable	$ 122,720	$ -
Adoption of lease standard ASU 2016-02	$ -	$ 1,781,446
Capitalized interest on convertible debentures	$ 212,601	$ 1,144,762
Shares issued for conversion of notes payable	$ -	$ 25,857
Reclassification of deposit to fixed assets	$ -	$ 136,190

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2021
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

Basis of Presentation

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

Principals of Consolidation

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

Nature of Business

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

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

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

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

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

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

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company (“CLS Massachusetts”), and In Good Health, Inc., a Massachusetts corporation (“IGH”), entered into an Option Agreement (the “IGH Option Agreement”). Under the terms of the IGH Option Agreement, CLS Massachusetts had an exclusive option to acquire all of the outstanding capital stock of IGH (the “IGH Option”) during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that is 60 days after such date. If CLS Massachusetts exercised the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH would enter into a merger agreement (the form of which had been agreed to by the parties) (the “IGH Merger Agreement”). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts would pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted common stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH’s President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement entered into agreements pursuant to which such stockholders, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH, in the principal amount of $5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan is evidenced by a secured promissory note of IGH, which bears interest at the rate of 6% per annum and matures on October 31, 2021. To secure the obligations of IGH to the Company under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH. If the Company did not exercise the Option on or prior to the date that is 30 days following the end of the option period, the loan amount would be reduced to $2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay closing until January 2020. By letter agreement dated January 31, 2020, the Company, CLS Massachusetts and IGH extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option. By letter dated February 26, 2020, the Company informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. The Company advised IGH that it was electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the Note. This dispute, including whether IGH breached the IGH Option and whether CLS is entitled to collect default interest, is now in litigation. At February 28, 2021, the Company had collected a total of $2,901,569 of principal and $220,196 of interest on the IGH Note. On February 27, 2021, IGH notified the Company that it did not plan to make further payments under the IGH Note on the theory that the Break-Up Fee (as defined below) excused additional payments. The Company vehemently disagrees with this assertion, which remains in litigation. The Company has requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH’s breach of the IGH Note, as well as to add a fraud count to the complaint. During the nine months ended February 28, 2021, the Company impaired the remaining amounts due under the IGH Note in the amount of $2,498,706, which includes $2,497,884 in principal and $822 in accrued interest. As of February 28, 2021, the principal balance of the IGH Note was $0 and the interest receivable was $0.

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

On March 11, 2019, the Company, through its wholly-owned subsidiary, CLS Massachusetts, entered into a membership interest purchase agreement (the “CannAssist Purchase Agreement”) with CannAssist, each of the members of CannAssist, and David Noble, as the members’ representative, to acquire an 80% ownership interest in CannAssist. After conducting diligence, the parties decided to terminate the CannAssist Purchase Agreement effective August 26, 2019.

On August 26, 2019, the Company and CannAssist entered into an agreement to amend the CannAssist Note. Pursuant to the amendment, there were no additional advances under the CannAssist Note beyond the $150,000 advanced on February 4, 2019, and the $175,000 advanced on June 24, 2019. In addition, the CannAssist Note became due and payable in full on or before February 28, 2020. See note 8. On December 23, 2019, the Company received payment in full on the CannAssist loan in the amount of $342,567, which was made up of $325,000 of principal and $17,567 of interest. At February 28, 2021, the Company was owed $0 pursuant to the CannAssist Note.

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

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Company had cash and cash equivalents of $2,231,934 and $2,925,568 as of February 28, 2021 and May 31, 2020, 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 $0 and $0 of bad debt expense during the three months ended February 28, 2021 and February 29, 2020, respectively. The Company had $5,927 and $0 of bad debt expense during the nine months ended February 28, 2021, and February 29, 2020, respectively.

Inventory

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

Property, Plant and Equipment

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

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

Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles including goodwill for impairment on an annual basis utilizing the guidance set forth in the Statement of Financial Accounting Standards Board ASC 350 "Intangibles – Goodwill and Other" and ASC 360 "Property, Plant, and Equipment". As a result of the impairment test, it was calculated that the net carrying value of goodwill exceeded the fair value by $25,185,003, and the Company recorded an impairment charge to operations during the year ended May 31, 2020. At February 28, 2021, the net carrying value of goodwill on the Company's balance sheet was $557,896.

Comprehensive Income

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

Concentrations of Credit Risk

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

Advertising and Marketing Costs

All costs associated with advertising and promoting products are expensed as incurred. Total recognized advertising and marketing expenses were $383,128 and $220,927 for the three months ended February 28, 2021 and February 29, 2020, respectively. Total recognized advertising and marketing expenses were $826,867 and $424,019 for the nine months ended February 28, 2021 and February 29, 2020, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. Total recognized research and development expenses were $8,334 and $0 for the three months ended February 28, 2021 and February 29, 2020, respectively. Total recognized research and development expenses were $20,726 and $0 for the nine months ended February 28, 2021 and February 29, 2020, respectively.

Fair Value of Financial Instruments

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

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

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

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

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

Derivative Financial Instruments

Derivatives are recorded on the condensed consolidated balance sheets at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheets with changes in fair value recognized during each period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company uses for determining the fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income (see note 19).

There were no reset provisions triggered or derivative liabilities revalued during the three and nine months ended February 28, 2021 or February 29, 2020.

Revenue Recognition

Revenue is primarily generated through the Company's subsidiary, Serenity Wellness Center LLC, d/b/a Oasis Cannabis ("Oasis"). Oasis operates a cannabis dispensary that recognizes revenue from the sale of medical and recreational cannabis products within the State of Nevada. Revenue from the sale of cannabis products is recognized by Oasis at the point of sale, at which time payment is received. Management estimates an allowance for sales returns.

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

- Premium organic medical cannabis sold wholesale to licensed retailers
- Recreational marijuana cannabis products sold wholesale to licensed 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 commercial sales of products and licensing agreements by applying the following steps: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to each performance obligation in the contract; and (5) recognizing revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of the service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured.

At times, the Company may accept payment for its processing and extraction services in the form of the product extracted, which is then added to inventory. These transactions are valued at the market price of the product.

There was no impact on the Company's financial statements as a result of adopting Topic 606.

Disaggregation of Revenue

The following table represents a disaggregation of revenue for the three and nine months ended February 28, 2021 and February 29, 2020:

	For the Nine Months Ended February 28, 2021	For the Nine Months Ended February 29, 2020	For the Three Months Ended February 28, 2021	For the Three Months Ended February 29, 2020
Cannabis Dispensary	10,202,638	7,035,268	3,384,139	2,637,006
Cannabis Production	3,030,202	2,104,348	1,159,943	587,164
	13,232,840	9,139,616	4,544,082	3,224,170

Basic and Diluted Earnings or Loss Per Share

Basic net earnings per share is based on the weighted average number of shares outstanding during the period, while fully diluted net earnings per share is based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of options and warrants to purchase common stock, and convertible debt. Basic and diluted net loss per share are computed based on the weighted average number of shares of common stock outstanding during the period. At February 28, 2021 and February 29, 2020, the Company excluded from the calculation of fully diluted shares outstanding the following shares because the result would have been anti-dilutive: At February 28 2021, a total of 87,861,815 shares (54,410,145 issuable upon the exercise of warrants; 7,676,974 issuable upon the exercise of unit warrants; 25,454,696 issuable upon the conversion of convertible notes payable and accrued interest; and 320,000 in stock to be issued); at February 29, 2020, a total of 87,577,583 shares (54,835,145 issuable upon the exercise of warrants; 7,676,974 issuable upon the exercise of unit warrants; 24,678,796 issuable upon the conversion of convertible notes payable and accrued interest; and 386,668 in stock to be issued).

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 anti-dilutive. As a result, the basic and dilutive losses per common share are the same for the three and nine months ended February 28, 2021 and February 29, 2020.

Income Taxes

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

Section 280E of the Internal Revenue Code, as amended, prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the Controlled Substances Act). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS has issued a clarification allowing the deduction of certain expenses, the bulk of operating costs and general administrative costs are generally not permitted to be deducted. The operations of certain of the Company's subsidiaries are subject to Section 280E. This results in permanent differences between ordinary and necessary business expenses deemed non-deductible under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Codification ("ASC") No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at the lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. The Company performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. The Company adopted the ASU and related amendments on June 1, 2019 and elected certain practical expedients permitted under the transition guidance. The Company elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. Under the new guidance, the majority of the Company's leases continue to be classified as operating. During the first quarter of fiscal 2020, the Company completed its implementation of its processes and policies to support the new lease accounting and reporting requirements. This resulted in an initial increase in both its total assets of $2,703,821 and total liabilities in the amount of $2,675,310.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplified 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 became effective for the Company on June 1, 2020. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this update changed 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 clarified existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer is 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 required 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. The amendments in Part I of this update became effective for the Company on June 1, 2019. The adoption of ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815), did not have a material effect on the Company's financial statements.

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

Note 2 – **Going Concern**

As shown in the accompanying financial statements, the Company has incurred net losses from operations resulting in an accumulated deficit of $82,553,308 as of February 28, 2021. The Company's auditors stated in their opinion on the Company's financial statements for the year ended May 31, 2020 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. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Note 3 – **Acquisition of Alternative Solutions**

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

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (see note 15), (the "Oasis Note"), and 22,058,823 shares of its common stock (see note 17), (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because the Company assumed an additional $204,457 of liabilities. The Company used the proceeds of a Canadian private securities offering to fund the cash portion of the Closing Consideration (see note 17). The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018. On August 14, 2019, the Company made a prepayment in the amount of $2,500,000, which, along with certain legal fees and other costs in the aggregate amount of $138,784, was applied to the amount due under the $4.0 million promissory note. The Company repaid the balance due under the Oasis Note on December 31, 2019.

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

The full amount of the bonus payment was earned, and on May 27, 2020, the Company made a payment in the amount of $850,000 to the sellers. The Company deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The tax audit was completed and the Company received a deficiency notice dated January 29, 2021. The Company paid the tax due and on February 16, 2021, $41,805 of the escrowed amount was released to the Company, $106,195 was released to sellers and the balance of $2,000 was remitted to the escrow agent as payment of its fees. As of February 28, 2021, none of the $150,000 escrowed amount remained on the Company's balance sheet.

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

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

The above estimated fair value of the intangible assets is based on a preliminary purchase price allocation prepared by a third party valuation expert. During the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. After the preliminary purchase price allocation period, the Company may record adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in its operating results in the period in which the adjustments were determined. The Company assessed these intangible assets as of May 31, 2020 for purposes of determining if an impairment existed as set forth in ASC 350 – Intangibles – Goodwill and Other and ASC 360 – Property Plant and Equipment. Pursuant to ASC 360, the Company recorded an impairment of goodwill in the amount of $25,185,003 based upon the difference between the carrying value of $25,742,899 and the fair value $557,896. Fair value was based upon the price of the Company's common stock at May 31, 2020 of $0.06 per share. (see note 12). At February 28, 2021, and May 31, 2020, the net amount of goodwill on the Company's balance sheet was $557,896.

The Company recognized revenue from the Oasis LLCs in the amounts of $4,554,082 and $3,224,170 for the three months ended February 28, 2021 and February 29, 2020, respectively. The Company recognized revenue from the Oasis LLCs in the amounts of $13,232,840 and $9,139,616 for the nine months ended February 28, 2021 and February 29, 2020, respectively.

Note 4 – **Joint Venture and Options Transaction**

In Good Health

On October 31, 2018, the Company, CLS Massachusetts, and IGH, which converted to a for-profit corporation on November 6, 2018 (the "Conversion"), entered into the IGH Option Agreement. Under the terms of the IGH Option Agreement, CLS Massachusetts had an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the Conversion and December 1, 2019, and ending on the date that is 60 days after such date (the "Option Period"). If CLS Massachusetts exercised the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH would enter into the IGH Merger Agreement (the form of which had been agreed to by the parties). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts would pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted common stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note.

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

On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH (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 9). The IGH Loan is evidenced by a secured promissory note of IGH (the "IGH Note"), which bears interest at the rate of 6% per annum and matures on October 31, 2021. The Company recorded interest income in the amounts of $39,346 and $74,795 on the IGH Loan during the three months ended February 28, 2021 and February 29, 2020, respectively. The Company recorded interest income in the amounts of $149,972 and $225,205 on the IGH Loan during the nine months ended February 28, 2021 and February 29, 2020, respectively. On March 1, 2020, the Company capitalized interest in the amount of $399,453 into the principal amount due. During the three and nine months ended February 28, 2021, the Company received payments on the IGH Note in the amounts of $196,765 and $1,696,765, which comprise $158,340 and $1,544,291 of principal and $38,424 and $152,473 of interest, respectively.

On February 27, 2021, IGH notified the Company that it did not plan to make further payments under the IGH Note on the theory that the Break-Up Fee (as defined below) excused additional payments. The Company vehemently disagrees with this assertion, which remains in litigation. The Company has requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint. During the nine months ended February 28, 2021, the Company impaired the remaining amounts due under the IGH Note in the amount of $2,498,706, which includes $2,497,884 in principal and $822 in accrued interest. As of February 28, 2021, the principal balance of the IGH Note was $0 and the interest receivable was $0.

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

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

On August 26, 2019, the parties amended the IGH Option to, among other things, extend the Option Period and delay closing until January 2020. By letter agreement dated January 31, 2020, the Company, CLS Massachusetts and IGH extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option. By letter dated February 26, 2020, the Company informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. The Company advised IGH that it was electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the Note. This dispute, including whether IGH breached the IGH Option and whether CLS is entitled to collect default interest, is now in litigation.

On March 3, 2020, the Company filed a claim for declaratory relief, among other things, requesting the court declare that CLS Massachusetts had validly exercised the IGH Option and instruct IGH to comply with its diligence requests and ultimately execute a merger agreement with CLS and CLS Massachusetts. The dispute regarding whether CLS Massachusetts properly exercised the IGH Option arose after CLS Massachusetts delivered a notice of exercise to IGH and IGH subsequently asserted that CLS Massachusetts' exercise was invalid. CLS and CLS Massachusetts intend to pursue this suit vigorously and believe that their claims are meritorious, however, there can be no assurance as to the ultimate outcome of this matter.

CannAssist

On January 29, 2019, the Company made a line of credit loan to CannAssist in the principal amount of up to $500,000, subject to the terms and conditions set forth in the CannAssist Loan Agreement. Any draws on the line of credit in excess of $150,000 will only be made in the sole discretion of the Company. The loan is evidenced by the CannAssist Note, which bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. On June 24, 2019, the Company advanced the sum of $175,000 to CannAssist, increasing the balance due to the Company under the CannAssist Note to $325,000. The Company recorded interest income in the amounts of $0 and $1,638 on the CannAssist loan during the three months ended February 28, 2021 and February 29, 2020, respectively. The Company recorded interest income in the amounts of $0 and $12,536 on the CannAssist loan during the nine months ended February 28, 2021 and February 29, 2020, respectively.

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

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

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

On December 23, 2019, the Company received payment in full on the CannAssist loan in the amount of $342,567, which comprises $325,000 of principal and $17,567 of interest.

Note 5 – Accounts Receivable

Accounts receivable was $277,437 and $161,409 at February 28, 2021 and May 31, 2020, respectively. During the nine months ended February 28, 2021, the Company had bad debt expense in the net amount of $5,927, consisting of the write-off of a receivable from a credit card processor in the amount of $7,668, partially offset by the collection from a customer in the amount of $1,741 which had been previously written-off. No allowance for doubtful accounts was necessary during the three and nine months ended February 28, 2021 and February 29, 2020.

Note 6 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	February 28, 2021	May 31, 2020
Deposits	$ 2,253	$ 2,315
Prepaid expenses	390,788	231,777
Total	$ 393,041	$ 234,092

Note 7 – Inventory

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

	February 28, 2021	May 31, 2020
Raw materials	$ 419,462	$ 134,697
Finished goods	550,194	440,545
Total	$ 969,656	$ 575,242

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

Note 8 – Notes Receivable

PRH Note Receivable

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

During the year ended May 31, 2018, the Company received a payment of $50,000 on the PRH Note. As a result, the Company has reduced the impairment of the PRH Note by $50,000 to reflect this payment. The receivable is recorded on the balance sheet as of November 30, 2020 in the amount of $0, net of allowance in the amount of $450,000.

IGH Note Receivable

On October 31, 2018, in connection with an option to purchase transaction (see note 4), the Company loaned $5,000,000 pursuant to the IGH Note to IGH; on November 6, 2018, IGH converted to a for-profit corporation. The IGH Note bears interest at the rate of 6% per annum. On March 1, 2020 (the "Initial Payment Date"), all accrued interest was added to the outstanding principal due hereunder and such amount is payable in eight equal quarterly installments, commencing on the Initial Payment Date, together with interest accruing after the Initial Payment Date. The IGH Note matures and all outstanding principal, accrued interest and any other amounts due hereunder, is due and payable in full on the third anniversary of the IGH Note. The IGH Note was issued in connection with a loan agreement and security agreement between the Company and IGH, and the IGH Option Agreement between the Company and IGH, among others, in both cases dated as of October 31, 2018 and the other IGH Loan Documents, and is secured by the collateral described in the IGH Loan Documents and by such other collateral as may in the future be granted to the Company to secure the IGH Note. During the three and nine months ended February 28, 2021, the Company recorded interest income in the amounts of $39,245 and $149,972, respectively, in connection with the IGH Note.

By letter dated February 26, 2020, the Company informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. The Company advised IGH that it was electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the Note. This dispute, including whether IGH breached the IGH Option and whether CLS is entitled to collect default interest, is now in litigation.

During the three and nine months ended February 28, 2021, the Company received payments on the IGH Note in the amounts of $196,765 and $1,696,765, respectively. The Company applied these payments as follows; $1,544,291 as a repayment of principal and $152,473 as a repayment of accrued interest. On February 27, 2021, IGH notified the Company that it did not plan to make further payments under the IGH Note on the theory that the Break-Up Fee excused additional payments. The Company vehemently disagrees with this assertion, which remains in litigation. The Company has requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint. During the nine months ended February 28, 2021, the Company impaired the remaining amounts due under the IGH Note in the amount of $2,498,706, which includes $2,497,884 in principal and $822 in accrued interest. As of February 28, 2021, the principal balance of the IGH Note was $0 and the interest receivable was $0.

CannAssist Note Receivable

On January 29, 2019, the Company made a line of credit loan to CannAssist pursuant to the CannAssist Note, in the principal amount of up to $500,000. The loan bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. Payments on the loan were to commence on July 1, 2019 and the CannAssist Note was to mature on December 1, 2019. On August 26, 2019, the Company and CannAssist amended the CannAssist Note. Pursuant to the amendment, among other things, the CannAssist Note was to become due and payable in full on or before February 28, 2020. On December 23, 2019, the Company received payment in full on the CannAssist loan in the amount of $342,567, which comprised $325,000 of principal and $17,567 of interest. During the three months ended February 28, 2021 and February 29, 2020, the Company recorded interest income in the amount of $0 and $1,638 on the CannAssist Note, respectively. During the nine months ended February 28, 2021 and February 28, 2020, the Company recorded interest income in the amount of $0 and $12,536 on the CannAssist Note, respectively.

Note 9 – Property, Plant and Equipment

Property, plant and equipment consisted of the following at February 28, 2021 and May 31, 2020.

	February 28, 2021	May 31, 2020
Office equipment	$ 115,616	$ 94,887
Furniture and fixtures	145,103	144,025
Machinery & Equipment	1,785,906	1,741,830
Leasehold improvements	2,778,350	2,662,967
Less: accumulated depreciation	(1,291,937)	(868,200)
Property, plant, and equipment, net	$ 3,533,038	$ 3,775,509

During the nine months ended February 28, 2021 and February 29, 2020, the Company made payments in the amounts of $181,266 and $1,766,185, respectively, for property, plant, and equipment. Also, during the nine months ended February 28, 2021 and February 29, 2020, the Company applied $0 and $136,190 of deposits to the acquisition of fixed assets. See note 6.

Depreciation of property, plant, and equipment was $139,989 and $87,025 for the three months ended February 28, 2021 and February 29, 2020 respectively. Depreciation of property, plant, and equipment was $423,737 and $198,788 for the nine months ended February 28, 2021 and February 29, 2020, respectively.

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

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

The Company's lease expense for the three and nine months ended February 28, 2021 was entirely comprised of operating leases and amounted to $106,903 and $314,313, respectively. The Company's right of use ("ROU") asset amortization for the three and nine months ended February 28, 2021 was $91,007 and $266,734, respectively. The difference between the lease expense and the associated ROU asset amortization consists of interest.

Right to use assets – operating leases are summarized below:

		February 28, 2021
Amount at inception of leases	$	2,703,821
Amount amortized		(1,567,126)
Balance – February 28, 2021	$	1,136,695

Operating lease liabilities are summarized below:

Amount at inception of leases	$	2,675,310
Amount amortized		(1,516,570)
Balance – February 28, 2021	$	1,158,740

		February 28, 2021
Warehouses and offices	$	1,158,740
Lease liability	$	1,158,740
Less: current portion		(93,532)
Lease liability, non-current	$	1,065,208

Maturity analysis under these lease agreements is as follows:

Twelve months ended February 28, 2022	$	182,858
Twelve months ended February 28, 2023		173,710
Twelve months ended February 29, 2024		168,408
Twelve months ended February 28, 2025		173,244
Twelve months ended February 28, 2026		178,225
Thereafter		765,722
Total	$	1,642,167
Less: Present value discount		(483,427)
Lease liability	$	1,158,740

Note 11 – Intangible Assets

Intangible assets consisted of the following at February 28, 2021 and May 31, 2020:

February 28, 2021	Gross	Accumulated Amortization	Net
Intellectual Property	$ 319,600	$ (85,227)	$ 234,373
License & Customer Relations	990,000	(132,000)	858,000
Tradenames - Trademarks	301,000	(80,267)	220,733
Non-Compete Agreements	27,000	(27,000)	-
Domain Names	26,512	(5,713)	20,799
Total	$ 1,664,112	$ (330,207)	$ 1,333,905

May 31, 2020	Gross	Accumulated Amortization	Net
Intellectual Property	$ 319,600	$ (61,257)	$ 258,343
License & Customer Relations	990,000	(94,875)	895,125
Tradenames - Trademarks	301,000	(57,692)	243,308
Non-Compete Agreements	27,000	(25,882)	1,118
Domain names	26,512	(3,202)	23,310
Total	$ 1,664,112	$ (242,908)	$ 1,421,204

Total amortization expense charged to operations for the three months ended February 28, 2021 and February 29, 2020 was $28,716 and $28,030, respectively. Total amortization expense charged to operations for the nine months ended February 28, 2021 and February 28, 2020 was $87,299 and $86,334, respectively.

Amount to be amortized during the twelve months ended February 28,	
2022	$ 111,989
2023	111,989
2024	111,989
2025	111,989
2026	111,989
Thereafter	773,960
	$ 1,333,905

Note 12 – Goodwill

The Company recorded goodwill in the amount of $25,742,899 in connection with the acquisition of Alternative Solutions on June 27, 2018 (see note 3).

The Company assessed its intangible assets as of May 31, 2020 for purposes of determining if an impairment existed as set forth in ASC 350 – Intangibles – Goodwill and Other and ASC 360 – Property Plant and Equipment. Pursuant to ASC 360, the Company recorded an impairment of goodwill in the amount of $25,185,003 based upon the difference between the carrying value of $25,742,899 and fair value of $557,896. Fair value was based upon the price of the Company's common stock at May 31, 2020 of $0.06 per share. At February 28, 2021, the net amount of goodwill on the Company's balance sheet was $557,896.

Note 13 – Other Assets

Other assets consisted of the following at February 28, 2021 and May 31, 2020:

	February 28, 2021	May 31, 2020
Security deposits	$ 167,455	$ 167,455
	$ 167,455	$ 167,455

Note 14 – Accounts Payable and Accrued Liabilities

Accrued accounts payable and accrued liabilities consisted of the following at February 28, 2021 and May 31, 2020:

	February 28, 2021	May 31, 2020
Trade accounts payable	$ 600,909	$ 591,060
Accrued payroll and payroll taxes	209,822	212,361
Accrued liabilities	369,017	369,462
Total	$ 1,179,748	$ 1,172,883

15 – Convertible Notes Payable

	February 28, 2021	May 31, 2020
Convertible debenture in the principal amount of $4,000,000 (the "U.S. Convertible Debenture 1") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 1. The U.S. Convertible Debenture 1 matures on a date that is three years following issuance. The U.S. Convertible Debenture 1 is convertible into units (the "Convertible Debenture Units") at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 1, the conversion price of U.S. Convertible Debenture 1 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 1 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 1 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 1 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $3,254,896 on the U.S. Convertible Debenture 1. During the three and nine months ended February 28, 2021, $271,241 and $813,724 of this discount was charged to operations, respectively. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $90,089 and $270,268 on the U.S. Convertible Debenture 1, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $82,688 from accrued interest to principal of the U.S. Convertible Debenture 1, respectively.	$ 4,504,457	$ 4,504,457

	February 28, 2021	May 31, 2020
Convertible debenture in the principal amount of $1,000,000 (the "U.S. Convertible Debenture 2") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 2. The U.S. Convertible Debenture 2 matures on a date that is three years following issuance. The U.S. Convertible Debenture 2 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 2 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 2, the conversion price of U.S. Convertible Debenture 2 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 2 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 2 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 2 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $813,724 on the U.S. Convertible Debenture 2. During the three and nine months ended February 28, 2021, $67,810 and $203,431 of this discount was charged to operations, respectively. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $22,522 and $67,567 on the U.S. Convertible Debenture 2, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $20,672 from accrued interest to principal of the U.S. Convertible Debenture 2, respectively.	1,126,114	1,126,114
Convertible debenture in the principal amount of $100,000 (the "U.S. Convertible Debenture 3") dated October 24, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 3. The U.S. Convertible Debenture 3 matures on a date that is three years following issuance. The U.S. Convertible Debenture 3 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 3 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 3, the conversion price of U.S. Convertible Debenture 3 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 3 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 3 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 3 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $75,415 on the U.S. Convertible Debenture 3. During the three and nine months ended February 28, 2021, $6,285 and $18,854 of this discount was charged to operations, respectively. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $2,252 and $6,757 on the U.S. Convertible Debenture 3, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $2,070 from accrued interest to principal of the U.S. Convertible Debenture 3, respectively.	112,613	112,613

	February 28, 2021	May 31, 2020
Convertible debenture in the principal amount of $532,000 (the "U.S. Convertible Debenture 4") dated October 25, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 4. The U.S. Convertible Debenture 4 matures on a date that is three years following issuance. The U.S. Convertible Debenture 4 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 4 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 4, the conversion price of U.S. Convertible Debenture 4 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 4 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 4 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 4 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $416,653 on the U.S. Convertible Debenture 4. During the three and nine months ended February 28, 2021, $34,721 and $104,163 of this discount was charged to operations, respectively. During the three and nine months ended February28, 2021, the Company accrued interest in the amounts of $11,982 and $35,947 on the U.S. Convertible Debenture 4, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $11,010 from accrued interest to principal of the U.S. Convertible Debenture 4, respectively.	599,101	599,101
Convertible debenture in the principal amount of $150,000 (the "U.S. Convertible Debenture 5") dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 5. The U.S. Convertible Debenture 5 matures on a date that is three years following issuance. The U.S. Convertible Debenture 5 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 5 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 5 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $120,100 on the U.S. Convertible Debenture 5. During the three and nine months ended February 28, 2021, $10,008 and $30,025 of this discount was charged to operations, respectively. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $3,378 and $10,135 on the U.S. Convertible Debenture 5, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $3,104 from accrued interest to principal of the U.S. Convertible Debenture 5, respectively.	168,919	168,919

	February 28, 2021		May 31, 2020
Convertible debenture payable in the principal amount of $75,000 (the “U.S. Convertible Debenture 6”) dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 6. The U.S. Convertible Debenture 6 matures on a date that is three years following issuance. The U.S. Convertible Debenture 6 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 6 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 6 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $60,049 on the U.S. Convertible Debenture 6. During the three and nine months ended February 28, 2021, $5,004 and $15,012 of this discount was charged to operations, respectively. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $1,689 and $5,067 on the U.S. Convertible Debenture 6, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $1,552 from accrued interest to principal of the U.S. Convertible Debenture 6, respectively.	84,459		84,459
Convertible debentures payable in the aggregate principal amount of $12,012,000 (the “Canaccord Debentures”) dated December 12, 2018, which bear interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the Canaccord Debentures. The Canaccord Debentures mature on a date that is three years following issuance. The Canaccord Debentures are convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company’s common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The Canaccord Debentures have other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The Canaccord Debentures are unsecured obligations of the Company and rank *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. During the three months ended November 30, 2019, in two separate transactions, principal in the aggregate amount of $25,857 was converted into an aggregate of 32,321 shares of the Company’s common stock, and warrants to purchase 16,160 shares of common stock. There were no gains or losses recorded on these conversions because they were done in accordance with the terms of the original agreement. No discount was recorded for the fair value of the warrants issued. Because the market price of the Company’s common stock was less than the conversion price on the date of issuance of the Canaccord Debentures, a discount was not recorded on the Canaccord Debentures. During the three and nine months ended February 28, 2021, the Company accrued interest in the amounts of $270,003 and $806,442 on the Canaccord Debentures, respectively. Also, during the three and nine months ended February 28, 2021, the Company transferred the amounts of $0 and $212,601 from accrued interest to principal of the Canaccord Debentures, respectively.	13,500,150		13,287,549
Total - Convertible Notes Payable	$ 20,095,813	$	19,883,212
Less: Discount	(1,053,520)		(2,238,730)
Convertible Notes Payable, Net of Discounts	$ 19,042,293	$	17,644,482

		February 28, 2021		May 31, 2020
Total - Convertible Notes Payable, Net of Discounts, Current Portion, net of discount of $1,053,520 and $0	$	19,042,293	$	-
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion, net of discount of $0 and $2,238,730	$	-	$	17,644,482
Discounts on notes payable amortized to interest expense – 3 months ended February 28, 2021 and February 29, 2020, respectively	$	395,070	$	398,611
Discounts on notes payable amortized to interest expense – 9 months ended February 28, 2021 and February 29, 2020, respectively	$	1,185,210	$	1,249,053

Aggregate maturities of notes payable and convertible notes payable as of February 28, 2021 are as follows:

For the twelve months ended February 28,

2022	$	20,095,813
2023		-
2024		-
2025		-
2026		-
Thereafter		-
Total	$	20,095,813

Note 16 – **Contingent Liability**

The terms of the Company's acquisition of Alternative Solutions, included 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 reviewed the value of the contingent consideration, and concluded that, due to the increased revenue of Alternative Solutions, the fair value of this contingent liability was $1,000,000 at May 31, 2019. The Company recorded a charge to operations in the amount of $321,889 during the year ended May 31, 2019.

The full amount of the bonus payment was earned, and on May 27, 2020, the Company made a payment in the amount of $850,000 to the sellers. The Company deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The tax audit was completed and the Company received a deficiency notice dated January 29, 2021. The Company paid the tax due and on February 16, 2021, $41,805 of the escrowed amount was released to the Company, $106,195 was released to sellers and the balance of $2,000 was remitted to the escrow agent as payment of its fees.

Note 17 – **Stockholders' Equity**

The Company's authorized capital stock consists of 750,000,000 shares of common stock, par value $0.0001, at February 28, 2021 and May 31, 2020, and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 126,821,416 and 126,521,416 shares of common stock issued and outstanding as of February 28, 2021 and May 31, 2020, respectively.

Nine months ended February 28, 2021

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

During the nine months ended February 28, 2021, the Company charged an aggregate of $80,813 to common stock subscribed representing the accrual over the vesting period of 500,000 shares of restricted common stock issuable to officers. During the nine months ended February 28, 2021, the Company recognized the issuance of 250,000 to an officer, which shares were previously recorded in common stock to be issued.

During the nine months ended February 28, 2021, the Company recognized the cancellation of a consulting contract, which resulted in a credit to operations in the amount of $22,500 and the reversal of 100,000 shares of common stock to be issued.

During the nine months ended February 28, 2021, the Company recognized the cancellation of a consulting contract, which resulted in a credit to operations in the amount of $3,250 and the reversal of 25,000 shares of common stock to be issued.

During the nine months ended February 28, 2021, the Company recognized the issuance of 50,000 to a former officer, which shares were previously recorded in common stock to be issued.

Nine months ended February 29, 2020

Common Stock and Warrants Issued upon Conversion of Notes Payable:

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

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

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

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

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

During the nine months ended February 29, 2020, the Company charged an aggregate of $124,582 to common stock subscribed representing the accrual over the vesting period of 791,668 shares of restricted common stock issuable to officers. The Company also charged $30,000 to common stock subscribed representing the fair value of 133,332 shares of common stock to be issued to a service provider.

The Company also charged $45,000 to common stock subscribed representing the fair value of 200,000 shares of common stock to be issued to a service provider. During the nine months ended February 29, 2020, the Company issued 100,000 of these shares of common stock. At issuance, $22,500 was transferred from common stock subscribed; $10 was charged to common stock, and $22,490 was charged to additional paid-in capital.

Warrants

The following table summarizes the significant terms of warrants outstanding at February 28, 2021. This table does not include the unit warrants. See Unit Warrants section below.

Range of exercise prices	Number of warrants outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding warrants	Number of warrants exercisable	Weighted average exercise price of exercisable warrants
$ 0.49	33,465,110	0.75	$ 0.49	33,465,110	$ 0.49
0.50	2,736,500	0.98	0.50	2,736,500	0.50
0.60	17,500,000	0.75	0.60	17,500,000	0.60
0.75	412,500	0.01	0.75	412,500	0.75
1.10	296,035	0.82	1.10	296,035	1.10
	54,410,145	0.76	$ 0.53	54,410,145	$ 0.53

Transactions involving warrants are summarized below. This table does not include the unit warrants. See Unit Warrants sections below.

	Number of Shares		Weighted Average Exercise Price
Warrants outstanding at May 31, 2019	54,818,985	$	0.53
Granted	16,160	$	1.10
Exercised	-		
Cancelled / Expired	-	$	-
Warrants outstanding at May 31, 2020	54,838,145	$	0.53
Granted	-	$	-
Exercised	-	$	-
Cancelled / Expired	(425,000)	$	0.75
Warrants outstanding at February 28, 2021	54,410,145	$	0.53

Unit Warrants

On June 20, 2018, in connection with the special warrant offering, the Company issued Canaccord Genuity Corp. 2,317,842 three-year broker warrants at an exercise price of C$0.45 per unit as compensation. Each warrant entitles the holder to purchase one unit, which consists of one share of common stock and a warrant to purchase one share of common stock, for C$0.65 per share. These warrants were valued at $1,495,373, and this amount was charged to operations during the six months ended November 30, 2018.

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

Because the unit warrants are exercisable for Common Stock and warrants, they are not included in the warrant tables above.

Note 18 – **Gain on Settlement of Liabilities**

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

Note 19 – **Fair Value of Financial Instruments**

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

The following summarizes the Company's financial liabilities that are recorded at fair value on a recurring basis at February 28, 2021 and May 31, 2020:

	February 28, 2021			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

	May 31, 2020			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

Note 20 – Related Party Transactions

As of February 28, 2021 and May 31, 2020, 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

On July 31, 2018, the Company granted Ben Sillitoe, the former Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. On July 22, 2019, the Company issued these shares to Mr. Ben Sillitoe.

On July 31, 2018, the Company granted Mr. Don Decatur, the former Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. On July 22, 2019, the Company issued these shares to Mr. Decatur.

Note 21 – Commitments and Contingencies

Lease Arrangements

The Company leases several facilities for office, warehouse, and retail space. Currently lease commitments are as follows:

A lease which commenced February 2019 for 1,400 square feet of office space located at 1718 Industrial Road, Las Vegas, NV 89102 initially for a term of eighteen months, for the initial amount of $1,785 per month. In February 2020, this lease was extended to August 31, 2022, with the monthly amount increasing to $1,866.70 until September 2021, after which it will be subject to annual increases of 3%.

A lease which commenced January 2018 for 1,000 square feet of storefront plus 5,900 square feet of warehouse space located at 1800 Industrial Road, Suites 102, 160, and 180, Las Vegas, NV 89102 initially for a term of five years for the base amount of $7,500 per month, with annual increases of 3%. In February 2020, this lease was extended to February 28, 2030 and the monthly payment amount was increased by $600.

A lease which commenced February 2019 for 2,504 square feet of office space located at 1800 Industrial Road, Suite 100, Las Vegas, NV 89102 for the initial amount of $3,210 per month, with annual increases of 4%. In February 2020, this lease was extended to February 28, 2030, and the lease was modified to include annual increases of 3%.

A lease which commenced January 2016 for 22,000 square feet of warehouse space located at 203 E. Mayflower Avenue, North Las Vegas, NV 89030 for an initial term of five years and an initial amount of $11,000 per month, increasing to $29,000 per month.

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

In August 2017, the Company's Colorado subsidiary received a demand letter from its Colorado landlord requesting the forfeiture of the $50,000 security deposit, $10,000 in expenses, $15,699 in remaining rent due under the lease agreement and $30,000 to buy out the remaining amounts due under the lease. These expenses, which are a liability of the Company's Colorado subsidiary, have been accrued on the balance sheet as of February 28, 2021.

Contingent Liability

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

Note 22 – **Subsequent Events**

The Company has evaluated events through the date the financial statements and has determined that there were no additional material subsequent events.

Appointment of Director

On February 18, 2021, Ross Silver was appointed as a Director of the Company to replace Frank Koretsky, who resigned effective January 1, 2021.

On March 31, 2021, the holders of the Canaccord Debentures approved the amendment of the indenture related to the Canaccord Debentures to: (i) extend the maturity date of the Canaccord Debentures from December 12, 2021 to December 12, 2022; (ii) reduce the conversion price from $0.80 per unit (as such term is defined in the indenture) to $0.30 per unit; (iii) reduce the mandatory conversion VWAP threshold from $1.20 to $0.60 per share; and (iv) amend the definitions of "Warrant" and "Warrant Indenture" (as such terms are defined in the indenture), which included a reduction of the exercise price of each warrant to $0.40 per share of Common Stock of the Company. Simultaneously, the Company and the trustee under the related warrant indenture amended the warrant indenture to make conforming amendments.

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

HISTORY AND OUTLOOK

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

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

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

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

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

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

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

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc., a Massachusetts corporation ("IGH"), entered into an Option Agreement (the "IGH Option Agreement"). Under the terms of the IGH Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that is 60 days after such date. If CLS Massachusetts exercises the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH will enter into a merger agreement (the form of which has been agreed to by the parties) (the "IGH Merger Agreement"). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts will pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted Common Stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement have entered into agreements pursuant to which such stockholders have, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, we made a loan to IGH, in the principal amount of $5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan is evidenced by a secured promissory note of IGH, which bears interest at the rate of 6% per annum and matures on October 31, 2021. To secure the obligations of IGH to us under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to us a first priority lien on and security interest in all personal property of IGH. If we do not exercise the Option on or prior to the date that is 30 days following the end of the option period, the loan amount will be reduced to $2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay the closing until January 2020. By letter agreement dated January 31, 2020, the parties extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option.

By letter dated February 26, 2020, we informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. We further advised IGH that we were electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the IGH Note. On March 3, 2020, we filed a claim for declaratory relief, among other things, requesting the court declare that CLS Massachusetts had validly exercised the IGH Option and instruct IGH to comply with its diligence requests and ultimately execute a merger agreement with us. The dispute regarding whether CLS Massachusetts properly exercised the IGH Option arose after CLS Massachusetts delivered a notice of exercise to IGH and IGH subsequently asserted that CLS Massachusetts' exercise was invalid. CLS and CLS Massachusetts intend to pursue this suit vigorously and believe that their claims are meritorious, however, there can be no assurance as to the ultimate outcome of this matter. On February 27, 2021, IGH notified us that it did not plan to make further payments under the IGH Note on the theory that the Break-Up fee excused additional payments. We vehemently disagree with this assertion, which remains in litigation. We have requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint. At February 28, 2021, we had collected a total of $2,901,569 of principal and $220,196 of interest on the IGH Note. During the nine months ended February 28, 2021, we impaired the remaining amounts due under the IGH Note in the amount of $2,498,706, which includes $2,497,884 in principal and $822 in accrued interest. As of February 28, 2021, the principal balance of the IGH Note was $0 and the interest receivable was $0.

On September 13, 2018, we entered into a non-binding letter of intent (the "CannAssist LOI") with CannAssist, LLC ("CannAssist") setting forth the terms and conditions upon which we proposed to acquire an 80% ownership interest in CannAssist. On January 29, 2019, we made a line of credit loan to CannAssist, in the principal amount of up to $500,000, subject to the terms and conditions set forth in that certain Loan Agreement, dated as of January 29, 2019 between CannAssist as the Borrower and the Company as the Lender (the "CannAssist Loan Agreement"). The Loan was evidenced by a secured promissory note of CannAssist (the "CannAssist Note"), which bore interest at the rate of 8% per annum and was personally guaranteed by the two equity owners of CannAssist. CannAssist had drawn down $325,000 on the CannAssist Note. On March 11, 2019, the Company, through our wholly-owned subsidiary, CLS Massachusetts, entered into a membership interest purchase agreement (the "CannAssist Purchase Agreement") with CannAssist, each of the members of CannAssist, and David Noble, as the members' representative. Mr. Noble currently serves as the President of IGH, an entity that we hold an option to acquire. After conducting diligence regarding the cost of the planned buildout of the CannAssist facility, the parties jointly decided to terminate the CannAssist Purchase Agreement effective August 26, 2019 and declared the CannAssist Note due and payable in full not later than February 28, 2020. On December 23, 2019, we received payment in full on the CannAssist Note in the amount of $342,567, which comprised $325,000 of principal and $17,567 of interest.

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

We incurred a net loss of $30,657,973 for the year ended May 31, 2020, and $3,712,772 and $5,707,184 for the three and nine months ended February 28, 2021, respectively, resulting in an accumulated deficit of $76,846,124 as of May 31, 2020, which deficit increased to $82,553,308 as of February 28, 2021. These conditions raise substantial doubt about our ability to continue as a going concern.

Recent Developments – **COVID-19**

In December 2019, an outbreak of a novel strain of coronavirus, COVID-19, was identified in Wuhan, China. Since then, COVID-19 has spread across the globe, including the U.S., in which we and our subsidiaries operate, and has subsequently been recognized as a pandemic by the World Health Organization. Much of the global efforts to contain or slow the spread of COVID-19, including in the U.S., have been unsuccessful to date. The COVID-19 outbreak has severely restricted the level of economic activity around the world. In response to the COVID-19 outbreak, the federal and state governments of the U.S., including Nevada where we operate, have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Temporary closures of businesses were ordered and numerous other businesses temporarily closed voluntarily. In particular, on March 20, 2020, Nevada Governor Sisolak ordered all cannabis dispensaries to close their retail operations but permitted them to shift to a delivery-only model to serve their communities. On April 29, 2020, Governor Sisolak modified his order to permit curbside operations to begin on May 1, 2020, and on May 7, 2020, this order was further modified to permit limited in-dispensary operations. As a result, at present, we offer three types of services: traditional in-store services, delivery services and curbside pick-up, and we intend to continue to offer all three types of services. The global pandemic of COVID-19 continues to rapidly evolve, as does the process of distributing vaccines to combat it, and the ways that our business may evolve to respond to the pandemic and the needs of our customers.

As mentioned above, on March 20, 2020, we were required to close our Nevada dispensary and shift to a delivery-only model. As a result, we closed our retail operations for two days as we transitioned our business model to a delivery-only model, onboarded new staff, trained them on new software and communicated with our customer base. Within six days, we were achieving 50% of February sales despite having reduced our operating hours from 24 hours a day to a 14 hour a day delivery model. Although we furloughed 20 dispensary employees initially, as a result of the dedication of our loyal staff, we were able to quickly train a large number of our dispensary employees for new roles in our delivery-only model. While this was occurring, approximately 20% of the Nevada dispensaries closed their doors completely unable to transition to a delivery-only model. We then added curbside service, and ultimately limited in-dispensary services to our customers. As a result, we were able to re-employ all our furloughed employees who wished to return to work for us. In addition, we experienced a shift in our sales model as delivery and curbside sales rose to represent approximately 40% of our revenues versus only 15% for delivery services pre-pandemic. During the last fiscal quarter, delivery and curbside sales retreated to the more typical 20% range. In addition, at present, we are experiencing larger average orders, which helps a customer minimize the impact of the delivery fee. Finally, although our overall sales initially dipped after the onset of the pandemic, they gradually returned to pre-pandemic levels, then exceeded pre-pandemic levels, and in October 2020, we recorded our highest sales ever.

Beginning in May of 2020, the Las Vegas casinos began to re-open and the hotels resumed limited operations. By March 2021, some casinos had returned to pre-pandemic hours of operation and other attractions in Las Vegas, including entertainment, restaurants and hotels, had begun to re-open and/or expand operations, although the tourist and convention business has not yet returned to pre-pandemic levels. However, because 80% of our customer base is local residents, our business has not been as heavily impacted by the decline in tourism. Notwithstanding these changes, we remain focused on retaining and growing our local customer base.

Our manufacturing facility has continued to operate throughout the pandemic, but initially it operated primarily for the purposes of manufacturing City Trees products to be sold at our dispensary. The wholesale business initially declined substantially as the sales staff was unable to make sales calls and most dispensaries curtailed purchasing products from third parties, electing instead only to offer their own products for sale at their dispensaries. As a result, we initially furloughed two employees who worked at our manufacturing facility. Although we did not face shortages of extraction materials, we were initially impacted by the limited availability of certain materials, such as the supply of masks, gowns and other protective equipment, due to the global shortage of such protective equipment and materials. In recent months, our manufacturing and wholesale business slowly began to grow again as our customers resumed purchasing and more normal operations, and we re-hired our furloughed workers who wished to return to work. Starting in approximately September 2020, when we launched a re-brand and re-launch of our wholesale product line, our wholesale revenues improved more rapidly, and are now achieving revenues that are approximately 45% greater than pre-pandemic levels.

It is impossible for us to predict whether there will be additional government-mandated closures that could affect our business, how long the existing closures will remain in place, and how these measures will impact our operations. Although cannabis dispensaries in Nevada have been designated as "essential," this designation could change and it is possible that statewide or local re-opening protocols might be reversed if COVID-19 cases were to sharply increase and that we once again might be forced to limited or even close our manufacturing facilities or dispensary operations to protect our customers and employees. Even if our production facilities and delivery operations remain open, mandatory or voluntary self-quarantines and travel restrictions may limit our employees' ability to get to our facilities or to customers' homes, and this, together with the uncertainty produced by the rapidly evolving nature of the COVID-19 outbreak, may result in a suspension of or decline in production or retail sales. These types of restrictions could also impact the abilities of customers in Nevada to continue to have access to our products. Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, could impact personnel at third-party grow and manufacturing facilities in Nevada and elsewhere. Additionally, delays in shipping as a result of COVID-19 may impact our ability to obtain materials in a timely manner. Finally, due to the initial almost complete elimination of the tourist and convention business in Las Vegas, dispensaries who relied heavily on such customers are now competing with us for local customers. Some of these competitors have greater financial resources than we do and could offer aggressively lower prices to lure in local customers. Although the effects of the COVID-19 outbreak do not currently appear to be having a negative impact on our financial results, it is impossible for us to predict whether this trend will continue and how our financial results may be impacted if there are additional closures due to future "waves" of infections before wide scale vaccinations are achieved. At this time, due to the uncertainties associated with the continued spread of COVID-19 and the timing of vaccinations, the ultimate impact to our business cannot be reasonably estimated but such impact could be material.

Results of Operations

The table below sets forth our expenses as a percentage of revenue for the applicable periods:

	Three Months Ended February 28, 2021	**Three Months Ended February 29, 2020**	**Nine Months Ended February 28, 2021**	**Nine Months Ended February 29, 2020**
Revenue	100%	100%	100%	100%
Cost of Goods Sold	55%	48%	49%	50%
Gross Margin	45%	52%	51%	50%
Selling, General, and Administrative Expenses	55%	69%	58%	71%
Impairment of note receivable	55%	-	19%	-
Interest expense, net	17%	22%	17%	25%

The table below sets forth certain statistical and financial highlights for the applicable periods:

	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	Nine Months Ended February 28, 2021	Nine Months Ended February 29, 2020
Number of Customers Served (Dispensary)	62,753	73,133	184,129	187,468
Revenue	$ 4,554,082	$ 3,224,170	$ 13,232,840	$ 9,139,616
Gross Profit	$ 2,055,176	$ 1,686,210	$ 6,745,751	$ 4,602,452
Net Loss	$ (3,712,772)	$ (1,251,999)	$ (5,707,184)	$ (3,910,473)
EBITDA (1)	$ (2,786,395)	$ (412,878)	$ (2,959,084)	$ (1,370,134)
Adjusted EBITDA (1)	$ (193,377)	$ (332,065)	$ (204,132)	$ (1,200,552)

(1) EBITDA and Adjusted EBITDA are non-GAAP financial performance measures and should not be considered as alternatives to net income(loss) or any other measure derived in accordance with GAAP. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our financial results as reported in accordance with GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. As required by the rules of the SEC, we provide below a reconciliation of the non-GAAP financial measures contained herein to the most directly comparable measure under GAAP. Management believes that EBITDA and Adjusted EBITDA provide relevant and useful information, which is widely used by analysts, investors and competitors in our industry as well as by our management. Adjusted EBITDA excludes certain non-cash expenses not already excluded as part of EBITDA as well as the impact of the significant litigation expenses, which are associated with our action against IGH related to its breach of the IGH Option. By providing these non-GAAP profitability measures, management intends to provide investors with a meaningful, consistent comparison of our profitability measures for the periods presented.

Reconciliation of net loss for the three and nine months ended February 28, 2021 and February 29, 2020 to EBITDA and Adjusted EBITDA for the three and nine months ended February 28, 2021 and February 29, 2020:

	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	Nine Months Ended February 28, 2021	Nine Months Ended February 29, 2020
Net Loss	$ (3,712,772)	$ (1,251,999)	$ (5,707,184)	$ (3,910,473)
Add:				
Interest expense, net	$ 757,740	$ 725,003	$ 2,237,166	$ 2,254,752
Depreciation and amortization	$ 168,637	$ 114,118	$ 510,934	$ 285,587
EBITDA	$ (2,786,395)	$ (412,878)	$ (2,959,084)	$ (1,370,134)
Other adjustments:				
Non-recurring cash payments for litigation	$ 67,375	$ -	$ 210,566	$ -
Non-recurring impairment of note receivable	$ 2,498,706	$ -	$ 2,498,706	$ -
Non-cash compensation	$ 26,937	$ 80,813	$ 45,680	$ 169,582
Adjusted EBITDA	$ (193,377)	$ (332,065)	$ (204,132)	$ (1,200,552)

Three Months Ended February 28, 2021 and February 29, 2020

Revenue

We had revenue of $4,544,082 during the three months ended February 28, 2021, an increase of $1,319,912, or 41%, compared to revenue of $3,224,170 during the three months ended February 28, 2020. Our cannabis dispensary accounted for $3,384,139, or 75%, of our revenue for the three months ended February 28, 2021, an increase of $747,133 or 61%, compared to $2,637,006, or 82% of our revenue during the three months ended February 29, 2020. Dispensary revenue increased during the third quarter of the 2021 fiscal year because our average dispensary sales per day increased from $35,430 during the third quarter of fiscal 2020 to $50,490 during the third quarter of fiscal 2021. Our cannabis production and wholesale division accounted for $1,159,943, or 25%, of our revenue for the three months ended February 28, 2021, an increase of $572,779, or 98%, compared to $587,164, or 18% of our revenue for the three months ended February 29, 2020. The increase in production and wholesale revenue for the third quarter of fiscal 2021 was primarily due to the impact of our rebranding and relaunch efforts, which commenced in September 2020.

Cost of goods sold

Our cost of goods sold for the three months ended February 28, 2021 was $2,488,906, an increase of $950,946, or 62%, compared to cost of goods sold of $1,537,960 for three months ended February 29, 2020. The increase in cost of goods sold for the three months ended February 28, 2021 was due primarily to our increase in sales during the third quarter of fiscal 2021. Cost of goods sold was 55% of sales during the third quarter of fiscal 2021 compared to 48% during the third quarter fiscal 2020. Gross margin was 45% of sales during the third quarter of fiscal 2021 compared to 52% during the third quarter fiscal 2020. This decline in gross margin during the third quarter of fiscal 2021 was primarily due to aggressive promotions to meet the needs of customers, many of who had lost their jobs due to the pandemic, and improved inventory control procedures, the effects of which are being realized in the fourth quarter. Cost of goods sold during the third quarter of fiscal 2021 primarily consisted of $2,249,847 of product cost, $145,206 of state and local fees and taxes, and $81,345 of supplies and materials.

Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, increased by $298,296, or approximately 13%, to $2,511,502 during the three months ended February 28, 2021, compared to $2,213,206 for the three months ended February 29, 2020**.** The increase in SG&A expenses for the three months ended February 28, 2021 was primarily due to marketing and advertising related to the rebranding of our wholesale products; office and facilities costs incurred in connection with our expanded manufacturing facility, and costs directly related to our response to COVID-19.

SG&A expense during the third quarter of fiscal 2021 was primarily attributable to an aggregate of $1,971,707 in costs associated with operating the Oasis LLCs compared to $1,636,372 during the third quarter of fiscal 2020. The major components of the $327,001 increase in SG&A associated with the operation of the Oasis LLCs, are as follows: sales, marketing, and advertising of $332,333 compared to $171,713; lease, facilities and office costs of $381,763 compared to $252,879 payroll and related costs of $989,837 compared to $972,133; and insurance of $80,910 compared to $55,162. Payroll, insurance, and marketing costs increased during the third quarter of fiscal 2021 due to the growth in revenues of the Oasis LLCs during the third quarter of fiscal 2021: our use of a third-party marketing firm for campaigns to promote brand awareness, and the re-branding of our City Trees products and packaging; as well as due to costs incurred in connection with our response to COVID-19. Lease, facilities, and office costs increased due to our expanded production facility**,** and due to costs incurred in connection with our response to COVID-19.

Finally, SG&A decreased by an aggregate of $37,038 during the third quarter of fiscal 2021 as a result of a decrease in the expenses associated with the ongoing implementation of other aspects of our business plan and our general corporate overhead to an aggregate of $539,796, from $576,834 during the third quarter of fiscal 2020. The decrease in SG&A associated with this aspect of our business was primarily due to a decrease in travel related expense of $47,039.

Interest Expense, Net

Our interest expense, net of interest income, was $757,740 for the three months ended February 28, 2021, an increase of $32,737, or 5%, compared to $725,003 for the three months ended February 29, 2020. The increase in interest expense, net of interest income, was primarily due to a decrease in interest income during the third quarter of fiscal 2021 in the amount of $37,187, from $76,433 during the three months ended February 29, 2020 to $39,246 during the three months ended February 28, 2021. This decrease was primarily due to the lower principal balances under the IGH Note and the zero balance on the CannAssist Note, which was paid in full in December 2019.

Impairment of Note Receivable

During the three months ended February 28, 2021, we recorded an impairment of the IGH Note in the amount of $2,498,706; there was no comparable transaction in the comparable period of the prior year. This impairment arose after IGH notified us on February 27, 2021, that it did not plan to make further payments in accordance with the terms of the IGH Note on the theory that the Break-Up Fee excused such additional payments. We vehemently disagree with this assertion. We have requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint.

Net loss

For the reasons above, we incurred a net loss for the three months ended February 28, 2021 of $3,712,772, which was an increase of $2,460,773, or approximately 197%, compared to a net loss of $1,251,999 during the three months ended February 29, 2020.

Nine Months Ended February 28, 2021 and February 29, 2020

Revenue

We had revenue of $13,232,840 during the nine months ended February 28, 2021, an increase of $4,093,224, or 45%, compared to revenue of $9,139,616 during the nine months ended February 29, 2020. Our cannabis dispensary accounted for $10,202,638, or 77%, of our revenue for the nine months ended February 28, 2021, an increase of $3,167,370, or 45%, compared to $7,035,268 or 77% of our revenue during the nine months ended February 29, 2020. Dispensary revenue increased during the first nine months of the 2021 fiscal year because our average dispensary sales per day increased from $25,676 during the first nine months of fiscal 2020 to $37,372 during the first nine months of fiscal 2021. Our cannabis production and wholesale division accounted for $3,030,202, or 23%, of our revenue for the nine months ended February 28, 2021, an increase of $925,854, or 44%, compared to $2,104,348 , or 23% of our revenue for the nine months ended February 29, 2020. The increase in production and wholesale revenue for the first nine months of fiscal 2021 was primarily due to the impact of our rebranding and relaunch efforts, which commenced in September 2020.

Cost of goods sold

Our cost of goods sold for the nine months ended February 28, 2021 was $6,487,089, an increase of $1,949,925, or 43%, compared to cost of goods sold of $4,537,154 for the nine months ended February 29, 2020. The increase in cost of goods sold for the nine months ended February 28, 2021 was due primarily to our increase in sales during the first nine months of fiscal 2021. Cost of goods sold was 49% of sales during the first half of fiscal 2021 compared to 50% during the first nine months fiscal 2020. Gross margin was 51% of sales during the third quarter of fiscal 2021 compared to 50% during the third quarter fiscal 2020. This improvement in gross margin during the first nine months of fiscal 2021 was primarily due to a decrease in the cost of purchasing product as a result of the implementation of new processes, the retention of additional skilled employees and an improvement in inventory purchasing. Cost of goods sold during the first nine months of fiscal 2021 primarily consisted of $5,724,667 of product cost, $421,461 of state and local fees and taxes, and $263,795 of supplies and materials.

Selling, general and administrative expenses

Selling, general and administrative expenses, or SG&A, increased by $1,183,890, or approximately 18%, to $7,717,063 during the nine months ended February 28, 2021, compared to $6,533,173 for the nine months ended February 29, 2020**.** The increase in SG&A expenses for the nine months ended February 28, 2021 was primarily due to office and facilities costs incurred in connection with our expanded manufacturing facility; payroll and related expenses due to an increase in commissions related to increased sales, and increased staffing needed to support this sales growth; and costs directly related to our response to COVID-19.

SG&A expense during the first nine months of fiscal 2021 was primarily attributable to an aggregate of $5,907,813 in costs associated with operating the Oasis LLCs, an increase of $1,437,434 compared to $4,470,379 during the first nine months of fiscal 2020. The major components of the $1,437,434 increase in SG&A associated with the operation of the Oasis LLCs during the nine months ended February 28, 2021 compared to the nine months ended February 29, 2020 were as follows: lease, facilities and office costs of $1,354,521 compared to $695,936; payroll and related costs of $2,987,897 compared to $2,539,353; sales, marketing, and advertising costs of $767,378 compared to $433,038; depreciation and amortization of $290,450 compared to $198,929; and insurance of $242,478 compared to $165,762. Payroll, insurance and marketing costs increased during the first nine months of fiscal 2021 due to the growth in revenues of the Oasis LLCs during the first nine months of fiscal 2021; our use of a third-party marketing firm for campaigns to promote brand awareness, and the re-branding of our City Trees products and packaging; and due to costs incurred in connection with our response to COVID-19. Lease, facilities, and office costs increased due to our expanded production facility and due to costs incurred in connection with our response to COVID-19. These increases in costs were partially offset by a decrease in bad debt expense of $102,447, and in taxes, licenses, and registration fees by $66,782.

Finally, SG&A decreased by an aggregate of $253,543 during the first nine months of fiscal 2021 as a result of a decrease in the expenses associated with the ongoing implementation of other aspects of our business plan and our general corporate overhead to an aggregate of $1,809,251, from $2,062,794 during the first nine months of fiscal 2020. The major components of this decrease compared to the first nine months of fiscal 2020 were as follows: sales, marketing, and investor relations costs decreased by $132,419; travel related expenses decreased by $111,152; non-cash compensation decreased by $88,769; and professional fees decreased by $32,895. These decreases were primarily due to a decline in travel and our spend on investor relations during the first nine months of fiscal 2021 due to the impact of COVID-19. This decrease was partially offset by an increase in depreciation and amortization in the amount of $133,826.

Interest Expense, Net

Interest expense, net of interest income, was $2,237,166 for the nine months ended February 28, 2021, a decrease of $17,586, or 1%, compared to $2,254,752 for the nine months ended February 29, 2020. The decrease in interest expense was primarily due to a decrease in interest accrued on notes payable in the amount of $67,384 from $1,242,037 during the nine months ended February 29, 2020 to $1,201,929 during the nine months ended February 28, 2021. This occurred because we repaid the Oasis Note in December 2019, thereby reducing our outstanding debt by $3,932,616. Interest expense also decreased due to a decline in the amortization of discounts on notes payable during the first nine months of fiscal 2021 in the amount of $67,384, from $1,252,594 during the first nine months of fiscal 2020 to $1,185,210 during the nine months ended February 28, 2021. The decline in net interest expense for the first nine months of fiscal 2021 was partially offset by a decrease in interest income during the first nine months of fiscal 2021 in the amount of $89,906, from $239,879 during the nine months ended February 29, 2020 to $149,973 during the nine months ended February 28, 2021. This decrease occurred due to the lower principal balance under the IGH Note and the zero balance on the CannAssist Note, which was paid in full in December 2019.

Impairment of Note Receivable

During the nine months ended February 28, 2021, we recorded an impairment of the IGH Note in the amount of $2,498,706; there was no comparable transaction in the comparable period of the prior year. This impairment arose after IGH notified us on February 27, 2021, that it did not plan to make further payments in accordance with the terms of the IGH Note on the theory that the Break-Up Fee excused such additional payments. We vehemently disagree with this assertion. We have requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint.

Gain on Settlement of Liabilities

During the nine months ended February 29, 2020, we made a prepayment on the Oasis Note in connection with the settlement of a dispute between the former owners of Alternative Solutions and a consultant, and the amount of $275,000, which we had accrued with respect to this dispute, was extinguished. There was no comparable transaction during the first nine months of fiscal 2021.

Net loss

For the reasons above, we incurred a net loss for the nine months ended February 28, 2021 of $5,707,184, which was an increase of $1,796,711, or approximately 46%, compared to a net loss of $3,910,473 during the nine months ended February 29, 2020.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital at February 28, 2021 compared to May 31, 2020.

	February 28, 2021	May 31, 2020
Current Assets	$ 3,872,068	$ 7,941,808
Current Liabilities	$ 20,583,518	$ 1,882,216
Working Capital (Deficit)	$ (16,711,450)	$ 6,059,592

At February 28, 2021, we had a working capital deficit of $16,711,450, a decrease of $22,771,042 from the working capital of $6,059,592 we had at May 31, 2020. Our working capital at February 28, 2021, includes $2,231,934 of cash. The decrease in working capital was primarily the result of the reclassification of convertible notes payable in the net amount of $19,042,293 due in October 2021 from long term liabilities to current liabilities during the period. On March 31, 2021, the holders of $13,500,150 of these convertible notes approved the amendment and extension of the notes by one year so they have been reclassified from current liabilities to long term liabilities, which improved working capital as of March 31, 2021 by this amount.

The decrease in working capital was also the result of the impairment of the balance due under the IGH Note of $2,498,706 after IGH notified us on February 27, 2021, that it did not plan to make further payments in accordance with the terms of the IGH Note on the theory that the Break-Up Fee excused such additional payments. We have requested permission from the court to file an amended complaint to accelerate the due date of all remaining amounts under the IGH Note and receive default interest as a result of IGH's breach of the IGH Note, as well as to add a fraud count to the complaint.

During the first nine months of fiscal 2021, our net use of cash declined to $693,634 compared to $7,486,696 during the first nine months of fiscal 2020, reflecting our much improved overall cash flows for the first nine months of fiscal 2021. Our working capital needs will likely continue to increase, and if we require additional funds to meet them, we will seek additional debt or equity financing. We have operated at a loss since inception.

Cash flows used in operating activities were $2,056,659 during the nine months ended February 28, 2021, an increase of $185,316, or 10%, compared to cash flows used in operating activities of $1,871,343 during the nine months ended February 29, 2020. In deriving cash flows used in operating activities from the net losses for the first nine months of fiscal 2021 and fiscal 2020, there were net amounts of $4,255,942 and $1,428,708, respectively, of non-cash items that were added back to the net losses for each such year. The most significant of these non-cash items were $ 2,498,706 of note receivable impairment charges during the nine months ended February 28, 2021 compared to no comparable amount for the nine months ended February 29, 2020, which represents the impairment of the IGH Note as a result of IGH notifying us that it would not be making additional payments allegedly due to an offset for a Break-Up Fee (which we are disputing in litigation); $1,185,210 of amortization of debt discounts during the nine months ended February 28, 2021 compared to $1,249,053 during the nine months ended February 29, 2020, which amount declined due to the repayment of the Oasis Note in December 2019, and $511,036 of depreciation and amortization during the nine months ended February 28, 2021 compared to $285,073 during the nine months ended February 29, 2020. The increase in depreciation was due to the completion of our upgraded processing facility, which occurred in December 2019. We also recorded a gain on contingent liabilities in the amount of $275,000 during the nine months ended February 29, 2020 related to the success fee payable to the sellers of Alternative Solutions. There was no such transaction during the nine months ended February 28, 2021.

Finally, our cash used in operating activities was affected by changes in the components of working capital. The amounts of the components of working capital fluctuate for a variety of reasons, including management's expectation of required inventory levels; the amount of accrued interest, both receivable and payable; the amount of prepaid expenses; the amount of accrued compensation and other accrued liabilities; our accounts payable and accounts receivable balances; and the capitalization of right of use assets and liabilities associated with operating leases. The overall net change in the components of working capital resulted in a decrease in cash from operating activities in the amount of $605,417 during the nine months ended February 28, 2021, compared to an increase in cash from operating activities of $610,422 during the prior first nine months of fiscal 2020. The primary change in the components of working capital was an increase in inventory to $969,656 at February 28, 2021, compared to $575,242 at May 31, 2020, an increase of $364,414 during the nine months ended February 28, 2021, compared to a decrease in inventory of $16,503 during the nine months ended February 29, 2020. The increase at February 28, 2021 occurred because we increased inventory levels in our production and wholesale division as part of the rebranding and relaunch that occurred in September 2020. During fiscal 2020, we implemented a change in accounting principles that required us to account for operating leases in a different manner and separated the asset and liability components of them into right of use assets and operating lease liabilities. As a result, we accounted for the cumulative effects of our operating leases since inception during fiscal 2020, which caused right of use asset and operating lease liabilities to appear unusually high during fiscal 2020. The amounts recorded for fiscal 2021 are more normalized. In addition, the more significant changes for the nine months ended February 28, 2021 were as follows: accrued interest increased by $258,113, compared to an increase of $934,117 during the first nine months of fiscal 2020 due to a decrease in the principal amount of debt outstanding during fiscal 2020 (the increase in accrued interest for the first nine months of fiscal 2021 was partially offset by a reduction in accrued interest that occurred when $212,601 of interest on our convertible debt was capitalized to principal pursuant to the applicable note terms).

Cash flows provided by investing activities were $1,363,025 for the nine months ended February 28, 2021, a decrease of $2,979,210, or 184%, compared to cash flows used in investing activities of $1,616,185 during the nine months ended February 29, 2020. During the nine months ended February 28, 2021, we received principal payments of $1,544,291 under the IGH Note compared to $325,000 during the nine months ended February 29, 2020. During the nine months ended February 28, 2021, we made cash payments for property, equipment, and intangible assets in the amount of $181,266 related to the expansion of our warehouse facility and completion of our state-of-the-art processing plant, compared to $1,766,185 during the nine months ended February 29, 2020. We also made a loan to CannAssist in the amount of $175,000 during the nine months ended February 29, 2020; there were no comparable loans made during the nine months ended February 28, 2021.

Cash flows used in financing activities were $0 for the nine months ended February 28, 2021, a decrease of $3,999,168, or 100%, compared to cash used by financing activities of $3,999,168 during the nine months ended February 29, 2020. During the nine months ended February 29, 2020, we made a cash prepayment in the amount of $3,999,168 on the Oasis Note. There were no comparable transactions during the first nine months of fiscal 2021.

Third Party Debt

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

Name of Note		Original Principal Amount	Outstanding or Repaid	Payment Details
Oasis Note	$	4,000,000	Repaid	Repaid
2018 U.S. Convertible Debentures	$	6,595,663	Outstanding	Due October 26-31, 2021. Amount due includes capitalized interest of $738,663.
2018 Convertible Debentures	$	13,500,150	Outstanding	Due December 2022. Amount includes capitalized interest of $1,514,006 less conversion of principal in the amount of $25,856.

Oasis Note

On June 27, 2018, we closed on the purchase of the remaining 90% of the membership interests of Alternative Solutions and the Oasis LLCs. The closing occurred pursuant to the Acquisition Agreement dated December 4, 2017, as amended. On such date, we made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (the "Oasis Note"), and 22,058,823 shares of our Common Stock. The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because we assumed an additional $204,457 in liabilities. The Oasis Note bore interest at the rate of 6% per annum. The principal amount of the Oasis Note was reduced in August 2019, in accordance with the terms of the Acquisition Agreement, as a result of the settlement of the dispute between the former owners of Alternative Solutions and 4Front Advisors, a consultant to Alternative Solutions. The terms of the settlement with 4Front Advisors are confidential. The Oasis Note was secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs. On December 31, 2019, we repaid the remaining amount of the note, which comprised $1,363,925 of principal and $370,370 of interest.

2018 U.S. Convertible Debenture Offering

Between October 25, 2018 and November 2, 2018, we entered into six subscription agreements, pursuant to which we agreed to sell, for an aggregate purchase price of $5,857,000, $5,857,000 in original principal amount of convertible debentures in minimum denominations of $1,000 each. The debentures bear interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen (18) months following their issuance, being payable by increasing the then-outstanding principal amount of the debentures. The debentures mature on a date that is three years following their issuance. The debentures are convertible into units at a conversion price of $0.80 per unit. Each unit consists of (i) one share of our Common Stock, par value $.001 and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of Common Stock at a price of $1.10. The debentures have other features, such as mandatory conversion in the event our Common Stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The debentures are unsecured obligations of the Company and rank pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. Navy Capital and its affiliates purchased $5,000,000 in principal amount of debentures, with the remaining $857,000 in principal amount being purchased by several unaffiliated purchasers. The debentures include a provision for the capitalization of accrued interest on a quarterly basis for the first 18 months. Accrued interest in the aggregate amount of $738,663 was capitalized, and the aggregate principal amount of the debentures is $6,595,663.

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

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

The Debenture Amendment (as hereafter defined) was a Dilutive Issuance. As a result, the conversion price of the convertible debentures was automatically reduced from $.80 per unit to $.30 per unit and the form of warrant attached to the subscription agreement will be amended to reduce the Initial Exercise Price from $1.10 per share of Common Stock to $.4125 per share of Common Stock.

2018 Convertible Debenture Offering

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

We closed the 2018 Convertible Debenture Offering on December 12, 2018, issuing $12,012,000 million in 8% senior unsecured convertible debentures at the initial closing. At the closing, we paid the agents: (A)(i) a cash fee of $354,000 for advisory services provided to us in connection with the offering; (ii) a cash commission of $720,720, equivalent to 6.0% of the aggregate gross proceeds received at the closing of the offering; (B)(i) an aggregate of 184,375 units for advisory services; and (ii) a corporate finance fee equal to 375,375 units, which is the number of units equal to 2.5% of the aggregate gross proceeds received at the closing of the offering divided by the conversion price; and (C)(i) an aggregate of 442,500 advisory warrants; and (ii) 900,900 broker warrants, which was equal to 6.0% of the gross proceeds received at the closing of the offering divided by the conversion price. During the year ended May 31, 2020, principal in the amount of $25,856 was converted into 32,319 shares of common stock. The debentures include a provision for the capitalization of accrued interest on a quarterly basis for the first 18 months. Accrued interest in the amount of $1,514,006 was capitalized, and the principal amount of the debentures is $13,500,150.

The debentures are unsecured obligations of the Company, rank pari passu in right of payment of principal and interest and were issued pursuant to the terms of a debenture indenture, dated December 12, 2018, between the Company and Odyssey Trust Company as the debenture trustee. The debentures bear interest at a rate of 8% per annum from the closing date, payable on the last business day of each calendar quarter.

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

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

On March 31, 2021, the holders of the Canaccord Debentures approved the amendment of the indenture related to the Canaccord Debentures (the "Debenture Amendment") to: (i) extend the maturity date of the Canaccord Debentures from December 12, 2021 to December 12, 2022; (ii) reduce the conversion price from $0.80 per unit (as such term is defined in the indenture) to $0.30 per unit; (iii) reduce the mandatory conversion VWAP threshold from $1.20 to $0.60 per share; and (iv) amend the definitions of "Warrant" and "Warrant Indenture" (as such terms are defined in the indenture), which included a reduction of the exercise price of each warrant to $0.40 per share of our Common Stock. Simultaneously, we amended the warrant indenture to make conforming amendments.

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

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

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

Sales of Equity

The Canaccord Special Warrant Offering

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

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

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

In connection with the Special Warrant Offering, we paid a cash commission and other fees equal to CD$1,413,267 (USD$1,060,773), a corporate finance fee equal to 1,448,651 Special Warrants with a fair value of USD$1,413,300, and 2,317,842 Broker Warrants. Each Broker Warrant entitles the holder thereof to acquire one unit at a price of CD$0.45 per unit for a period of 36 months from the date that our Common Stock is listed on a recognized Canadian stock exchange, subject to adjustment in certain events. Our Common Stock commenced trading on the Canadian Stock Exchange on January 7, 2019. During the year ended May 31, 2020, we also issued investors 3,042,167 Special Warrants with a fair value of $7,142,550 as a penalty for failure to timely effect a Canadian prospectus with regard to the securities underlying the Special Warrants.

The Navy Capital Investors

Effective July 31, 2018, we entered into a subscription agreement with Navy Capital Green International, Ltd., a British Virgin Islands limited company ("Navy Capital"), pursuant to which we agreed to sell to Navy Capital, for a purchase price of $3,000,000, 7,500,000 Units ($0.40 per unit), representing (i) 7,500,000 shares of our Common Stock, and (ii) three-year warrants to purchase an aggregate of 7,500,000 shares of our Common Stock (the "Navy Warrant Shares") at an exercise price of $0.60 per share of Common Stock. We valued the warrants using the Black-Scholes valuation model, and allocated gross proceeds in the amount of $1,913,992 to the common stock and $1,086,008 to the warrants. The closing occurred on August 6, 2018. In the subscription agreement, we also agreed to file, on or before November 1, 2018, a registration statement with the SEC registering the shares of Common Stock and Navy Warrant Shares issued to Navy Capital. If we failed to file the registration statement on or before that date, we were required to issue to Navy Capital an additional number of units equal to ten percent (10%) of the units originally subscribed for by Navy Capital (which would include additional warrants at the original exercise price). On August 29, 2019, we filed a registration statement with the SEC which included the shares of Common Stock and Navy Warrant Shares issued to Navy Capital. 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 issuance or sale of Common Stock at a lower price, subject to certain exceptions as set forth in the warrant. As a result of the Debenture Amendment, conversion of the debentures issued in the 2018 Convertible Debenture Offering will trigger this provision and reduce the exercise price of the warrants. The warrant also provides that it is callable at any time after the bid price of our Common Stock exceeds 120% of the exercise price of the warrant for a period of 20 consecutive business days.

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

Liquidity and Capital Needs

Over the next twelve months we will likely require additional capital to cover our projected corporate level cash flow deficits, repayment of a portion of our convertible debt, and the implementation of our business plan, including the development of other revenue sources, such as possible acquisitions.

During the next twelve months, we do not have any capital projects planned. We may pursue additional acquisitions or joint ventures 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. If we do pursue any acquisitions, we would likely fund them with the proceeds of future equity sales, warrant exercise proceeds, loans or seller financings. We have not pursued the availability of any such sources at present.

Although our revenues are expected to grow as we expand our operations, and our revenues do exceed our Oasis and City Trees operating costs, our revenues do not yet exceed our Oasis and City Trees operating costs and corporate overhead. Although we believe we have funds sufficient to sustain our operations at their current level, if we require additional cash, we expect to obtain the necessary funds as described above; however, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of operations. To address these risks, we must, among other things, seek growth opportunities through additional debt and/or equity investments and acquisitions in our industry, successfully execute our business strategy, including our planned expansion and acquisitions, and successfully navigate the COVID-19 business environment in which we currently operate as well as any changes that may arise in the cannabis regulatory environment. We cannot assure that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business prospects, financial condition and results of operations.

Oasis Cannabis Transaction

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

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

The number of shares to be issued was computed as follows: $6,000,000 divided by the lower of $1.00 or the conversion price to receive one share of our Common Stock in our first equity offering of a certain minimum size that commenced in 2018, multiplied by 80%. This price was determined to be $0.272 per share. The Oasis Note is secured by a first priority security interest over our membership interests in Alternative Solutions and the Oasis LLCs, and by the assets of each of the Oasis LLCs and Alternative Solutions. We also delivered a confession of judgment to a representative of the former owners of Alternative Solutions and the Oasis LLCs (other than Alternative Solutions) that will generally become effective in the event of any event of default under the Oasis Note or failure to pay certain other amounts when due. We repaid the Oasis Note in full in December 2019.

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

The former owners of Alternative Solutions and the Oasis LLCs (other than Alternative Solutions) became entitled to a $1,000,000 payment from us because the Oasis LLC maintained an average revenue of $20,000 per day during the 2019 calendar year. We made a payment in the amount of $850,000 to the sellers on May 27, 2020. We deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The tax audit was completed and we received a deficiency notice dated January 29, 2021. We paid the tax due and on February 16, 2021, $41,805 of the escrowed amount was released to us, $106,195 was released to sellers and the balance of $2,000 was remitted to the escrow agent as payment of its fees. As of February 28, 2021, none of the $150,000 escrowed amount remained on our balance sheet.

The Oasis LLCs have not yet received the demand from the State of Nevada with the precise amount due and the amount escrowed is our best estimate of the pre-closing tax liability If the ultimate tax liability is less than $150,000, the balance of the escrowed amount will be paid to sellers. As of February 28, 2021, the $150,000 remains a liability on the Company's balance sheet and $150,000 is recorded in an escrow account in the asset section of the Company's balance sheet.

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

Consulting Agreements

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

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

On August 16, 2019, we amended a consulting agreement whereby we agreed to issue up to 200,000 shares of common stock plus pay certain amounts in exchange for the consultant's development for us of a corporate finance and investor relations campaign, which services were provided over a six month period. We issued 100,000 shares of common stock to this consultant before this agreement was terminated.

Going Concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception and have an accumulated deficit of $82,553,308 as of February 28, 2021, compared to $76,846,124, as of May 31, 2020. The report of our independent auditors for the year ended May 31, 2020, 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, and to borrow capital and sell equity to support our plans to acquire operating businesses, open processing facilities and finance ongoing operations There can be no assurance 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.

- Estimates and assumptions used in the valuation of intangible assets. In order to value our intangible assets, management prepares multi-year projections of revenue, costs of goods sold, gross margin, operating expenses, taxes and after tax margins relating to the operations associated with the intangible assets being valued. These projections are based on the estimates of management at the time they are prepared and include subjective assumptions regarding industry growth and other matters.

Recently Issued Accounting Standards

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

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. We have performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. We adopted the ASU and related amendments on June 1, 2019 and expect to elect certain practical expedients permitted under the transition guidance. We elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Under the new guidance, the majority of our leases will continue to be classified as operating. During the first quarter of fiscal 2020, we completed our implementation of our processes and policies to support the new lease accounting and reporting requirements. This resulted in an initial increase in our total assets of $2,703,821 and total liabilities in the amount of $2,675,310. The adoption of this ASU has not had a significant impact on our consolidated statements of operations or cash flows on an ongoing basis.

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 became effective for us on January 1, 2020. The amendments in this ASU will be applied on a prospective basis. The adoption of this ASU did not have a material impact on our consolidated financial statements.

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 4. Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures

Jeffrey Binder, our Chief Executive Officer, and Andrew Glashow, our President and Chief Operating Officer (and Principal Financial and Accounting 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 the evaluation, Mr. Binder and Mr. Glashow 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 Securities Exchange 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, an independent audit committee or adequate segregation of duties;

- We have not established a formal written policy for the approval, identification and authorization of related party transactions; and

- We do not have an independent body to oversee our internal controls over financial reporting and lack segregation of duties due to our limited resources.

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

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

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

On February 5, 2021, we issued 250,000 shares of common stock to Mr. Glashow, an officer and director of the Company, pursuant to the terms of his employment agreement. The issuance of such shares was exempt from registration because they were issued in a private offering.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

CLS HOLDINGS USA, INC.

Date: April 14, 2021	By:	/s/ Jeffrey I. Binder Jeffrey I. Binder Chairman and Chief Executive Officer (Principal Executive Officer)
Date: April 14, 2021	By:	/s/ Andrew Glashow Andrew Glashow President and Chief Operating Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

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

I, Jeffrey I. Binder, certify that:

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

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

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

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

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

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

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

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

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

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

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

April 14, 2021

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

EXHIBIT 31.2

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

I, Andrew Glashow, certify that:

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

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

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

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

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

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

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

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

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

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

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

April 14, 2021

/s/ Andrew Glashow
Andrew Glashow
President and Chief Operating Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

I, Jeffrey I. Binder, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended February 28, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2021

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

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

EXHIBIT 32.2

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

I, Andrew Glashow, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended February 28, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2021

/s/ Andrew Glashow
Andrew Glashow
President and Chief Operating 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.